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Registre de Commerce et des Sociétés
B121640 - L150118652
déposé le 07/07/2015

MENTION

Nom de la Société	:	**PRECISION CAPITAL S.A.** Société Anonyme
Siège Social	:	15, Boulevard Roosevelt L-2450 LUXEMBOURG
N° du R.C.S.	:	B-121.640

CDD : **687**

Les comptes consolidés au 31.12.2014
ont été enregistrés et déposés au Registre de Commerce et des Sociétés de Luxembourg.

Pour mention aux fins de publication au Mémorial, Recueil Spécial des Sociétés et Associations.

Luxembourg, le 6 juillet 2015

Signature :

FIDUCIAIRE FERNAND FABER

Registre de Commerce et des Sociétés
B121640 - L150118652
enregistré et déposé le 07/07/2015

Precision Capital S.A.
15, boulevard Roosevelt
L-2450 Luxembourg

R.C.S. Luxembourg: B 121.640

Consolidated accounts, Independent auditor's report
and Consolidated management report as at 31 December 2014

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The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the consolidated accounts of the Group.

Similarly, the value zero "0" in the following tables indicates the presence of a number after the decimal, while "-" represents the value nil.

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Independent auditor's report

To the shareholders of
Precision Capital S.A.
15, boulevard Roosevelt
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Report on the consolidated accounts

Following our appointment by the shareholders, we have audited the accompanying consolidated accounts of Precision Capital S.A., which comprise the consolidated balance sheet as of 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

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Responsibility of the "réviseur d'entreprises agréé" (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of Precision Capital S.A. as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Alain Kinsch

Luxembourg, 3 June 2015

Consolidated income statement

(in EUR thousand)	Notes	31/12/2014	31/12/2013
Net interest income	3	308,879	268,397
Gross earned premiums, insurance	4	1	1
Gross technical charges, insurance	5	1,613	1,977
Ceded reinsurance result, insurance		-261	-496
Dividend income	6	11,663	9,247
Net gains / losses on financial instruments measured at fair value through profit or loss	7	88,595	132,760
Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss	8	113,968	81,091
Net fee and commission income	9	504,495	514,686
Other net income	10	696	14,919
GROSS INCOME		**1,029,650**	**1,022,582**
Operating expenses	11,37	-803,315	-796,151
Staff expenses	*12,32,33*	*-477,950*	*-472,205*
General administrative expenses	*41*	*-235,388*	*-241,625*
Other	*28,29 31*	*-89,977*	*-82,321*
Impairment	13,22,23,28,37	-23,798	-36,091
Share of profit of associates	14,27	3,601	142
PROFIT / (LOSS) BEFORE TAX		**206,138**	**190,482**
Income tax (expenses) / income	15	-60,608	-40,975
PROFIT / (LOSS) AFTER TAX		**145,530**	**149,507**
Attributable to:			
Non-controlling interest		11,769	10,084
Owners of the parent company		**133,761**	**139,423**

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated statement of comprehensive income

(in EUR thousand)	31/12/2014	31/12/2013
PROFIT / (LOSS) AFTER TAX	145,530	149,507
OTHER COMPREHENSIVE INCOME	38,620	-10,831
Items that may be reclassified subsequently to profit and loss	**71,102**	**-3,794**
Available-for-sale financial assets	74,946	10,636
Revaluation at fair value	*155,985*	*60,538*
Net realised gains / losses on sales	*-81,830*	*-74,603*
Impairment	*19*	*26,543*
Income tax (expenses) / income	*772*	*-1,842*
Cash flow hedge reserve	381	-15,371
Effective portion of changes in fair value	381	-15,371
Reclassification to income statement (net realised gains / losses on financial assets and liabilities not measured at fair value through profit or loss)	-	-
Income tax (expenses) / income	-	-
Exchange differences on translation of foreign operations	-4,225	941
Items that will not be reclassified to profit and loss	**-32,482**	**-7,037**
Remeasurements of defined benefit pension plans	*-32,482*	*-7,037*
Remeasurements (gross)	*-36,818*	*-9,183*
Income tax on remeasurements	*4,337*	*2,146*
TOTAL COMPREHENSIVE INCOME	**184,150**	**138,676**
Attributable to: Non-controlling interest	17,450	7,421
Attributable to owners of the parent	**166,700**	**131,255**

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated balance sheet

ASSETS (in EUR million)	Notes	31/12/2014	31/12/2013
Cash and balances with central banks	39	2,193	2,388
Financial assets	16, 17, 18, 19, 20, 21, 22, 23, 37, 39	29,268	28,452
Held-for-trading	*24*	*1,153*	*1,041*
At fair value through profit or loss		*1,947*	*1,863*
Available-for-sale financial assets	*22*	*9,753*	*9,445*
Loans and receivables	*23*	*16,116*	*15,883*
Held-to-maturity		*164*	*40*
Hedging derivatives	*24*	*136*	*180*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk		24	26
Reinsurers' share in technical provisions, insurance		2	-
Tax assets	26, 39	250	315
Current tax assets		*6*	*3*
Deferred tax assets		*244*	*312*
Investments in associates	27	38	12
Investment properties	29	191	205
Property and equipment	29	486	524
Goodwill and other intangible assets	28	228	231
Other assets	25, 39	384	330
TOTAL ASSETS		**33,064**	**32,483**

EQUITY AND LIABILITIES (in EUR million)	Notes	31/12/2014	31/12/2013
Financial liabilities	16, 18, 19, 37	29,568	28,919
Held-for-trading	*24*	*559*	*812*
At fair value through profit or loss		*2,966*	*3,651*
At amortised cost		*25,454*	*24,082*
Hedging derivatives	*24*	*589*	*374*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk		71	59
Gross technical provisions, insurance	30	163	222
Tax liabilities	26	14	35
Current tax liabilities		*4*	*3*
Deferred tax liabilities		*11*	*32*
Provisions	31	72	53
Other liabilities	32, 33	664	756
TOTAL LIABILITIES		**30,553**	**30,044**
TOTAL EQUITY		**2,511**	**2,439**
Equity attributable to the owners of the parent	*34*	*2,376*	*2,309*
Non-controlling interest		*136*	*130*
TOTAL EQUITY AND LIABILITIES		**33,064**	**32,483**

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated statement of changes in equity

(in EUR million)	Subscribed capital (1)	Consolidated reserves	Revaluation reserve (AFS investments)	Remeasurement of defined benefit pension plans	Cash flow hedge reserve	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
2014									
Balance as at 01/01/2014	**1,850.0**	**378.5**	**106.0**	**-6.4**	**-12.7**	**-5.8**	**2,309.6**	**129.8**	**2,439.4**
Capital increase	-	-	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-90.0	-	-	-	-	**-90.0**	-10.1	**-100.1**
Total comprehensive income for the year	-	133.8	68.5	-31.5	0.2	-4.3	**166.7**	17.5	**184.2**
Classification of income to hybrid capital	-	-2.7	-	-	-	-	**-2.7**	-0.3	**-3.0**
Changes in scope of consolidation	-	-8.7	-	-	-	-	**-8.7**	-1.0	**-9.7**
Cancellation of DTL on hybrid capital	-	0.8	-	-	-	-	**0.8**	0.1	**0.9**
Other	-	-0.1	0.0	0.0	0.0	0.0	**-0.1**	-0.6	**-0.7**
Balance as at 31/12/2014	**1,850.0**	**411.5**	**174.5**	**-37.8**	**-12.5**	**-10.1**	**2,375.6**	**135.5**	**2,511.1**

(in EUR million)	Subscribed capital (1)	Consolidated reserves	Revaluation reserve (AFS investments)	Remeasurement of defined benefit pension plans	Cash flow hedge reserve	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
2013									
Balance as at 01/01/2013	**1,850.0**	**254.5**	**95.0**	-	**1.1**	**-6.9**	**2,193.7**	**124.1**	**2,317.8**
Capital increase	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	139.4	11.0	-6.4	-13.8	1.1	**131.3**	7.4	**138.7**
Classification of income to hybrid capital	-	-19.5	-	-	-	-	**-19.5**	-2.2	**-21.7**
Changes in accounting method	-	3.8	-	-	-	-	**3.8**	0.4	**4.2**
Other	-	0.3	-	-	-	-	**0.3**	0.1	**0.4**
Balance as at 31/12/2013	**1,850.0**	**378.5**	**106.0**	**-6.4**	**-12.7**	**-5.8**	**2,309.6**	**129.8**	**2,439.4**

(1) of which EUR 142.6 million subscribed but uncalled and unpaid as at 31 Decembre 2014 and 2013 (see Note 25).

Consolidated statement of cash flows

(in EUR million)	Notes	31/12/2014	31/12/2013
Profit before tax		**206.1**	**190.5**
Adjustments to reconcile profit before tax to net cash flows:			
Impairment on securities, amortisation and depreciation on property and equipment, intangible assets and investment properties	*11, 13*	*81.4*	*71.4*
Profit/loss on the disposal of investments		*-0.6*	*-2.0*
Change in impairment for losses on loans and advances	*13*	*20.1*	*32.7*
Change in gross technical provisions – insurance	*5*	*-1.6*	*-2.0*
Change in the reinsurers' share in the technical provisions		*0.3*	*0.5*
Change in gross earned premiums	*4*	*0.0*	*-*
Change in other provisions	*11*	*12.3*	*14.3*
Unrealised foreign currency gains and losses and valuation differences		*-26.8*	*-18.5*
Income from associates	*14*	*-3.6*	*-0.1*
Cash flows from operating activities, before tax and changes in operating assets and liabilities		**287.5**	**286.8**
Changes in operating assets (1)		527.9	-1,784.0
Changes in operating liabilities (2)		-644.3	-41.3
Income taxes		-15.9	-2.9
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**155.3**	**-1,541.4**
Purchase of subsidiaries or business units, net of cash acquired/disposed of		-	-
Purchase of investment properties	29	-0.3	-0.4
Proceeds from sale of investment properties	29	11.9	3.1
Purchase of intangible assets	28	-4.2	-2.8
Proceeds from sale of intangible assets	28	0.3	-
Purchase of property and equipment	29	-21.6	-16.3
Proceeds from sale of property and equipment	29	10.9	1.8
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**-3.0**	**-14.6**
Issue of equity instruments	34	-	-
Issue/repayment of loans	16	7.4	238.6
Issue /repayment of subordinated debts	16	107.6	-354.4
Dividends paid and profit-sharing		-	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**115.0**	**-115.8**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)		**267.3**	**-1,671.8**
CASH AND CASH EQUIVALENTS AS AT 01/01		**4,075.0**	**5,746.8**
Net increase/decrease in cash and cash equivalents		267.3	-1,671.8
CASH AND CASH EQUIVALENTS AS AT 31/12		**4,342.2**	**4,075.0**
ADDITIONAL INFORMATION			
Interest paid during the year		273.8	-310.7
Interest received during the year		575.6	594.9
Dividends received (including equity method)	6	11.7	9.2
COMPONENTS OF CASH AND CASH EQUIVALENTS		**4,342.2**	**4,075.0**
Cash and balances with central banks (including legal reserve with the central bank)		2,192.7	2,388.1
Loans and advances to banks repayable on demand		3,346.9	2,642.4
Deposits from banks repayable on demand		-1,197.3	-955.5
Of which: not available (4)		*1,389.5*	*805.6*

(1) Including loans and advances to banks and customers, securities, derivatives and other assets.
(2) Including deposits from banks and customers, bonds issued, derivatives and other liabilities.
(3) Cash includes cash and deposits payable on demand; cash equivalents are short-term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.
(4) Cash and cash equivalents not available for the Group are mainly composed of the legal reserve held with the Luxembourg Central Bank and the 'margin' accounts held with clearing houses.

The notes refer to the 'Notes to the consolidated accounts'.

Notes to the consolidated accounts

Note 1 – General

Precision Capital Group (hereafter "Precision Capital Group" or the "Group") is a financial holding company subject to the consolidated supervision of the *Commission de Surveillance du Secteur Financier* ("CSSF").

Precision Capital S.A. (hereafter "Precision Capital" or the "Financial Holding") is a public limited liability company under Luxembourg law incorporated in Luxembourg on 14 November 2006 and has its registered office at 15, boulevard Roosevelt, L-2450 Luxembourg.

Precision Capital is a wholly-owned subsidiary of Pioneer Holding S.A., a Luxembourg entity.

As of 31 December 2014, Precision Capital has two affiliated companies:

- 99.91% of KBL European Private Bankers S.A. (hereafter "KBL epb"), an international network of banks and financial companies specialized in private banking.
  As of 31 July 2012, KBC Group and Precision Capital finalised the agreement on the acquisition of 99.91% of KBL epb, after having authorization from the supervisory authorities concerned, for a total consideration of EUR 1,002.1 million.

- 89.93% of Banque Internationale à Luxembourg S.A. (hereafter "BIL"), which operates retail banking, private banking, corporate banking and financial market businesses mainly in Luxembourg.
  As of 5 October 2012, Dexia S.A., Precision Capital and the Grand Duchy of Luxembourg finalised the closing of the acquisition of 99.906% of the share capital of BIL for a total consideration amount of EUR 730 million. In this transaction, Precision Capital acquired 89.92% of Dexia S.A.'s shares in BIL for EUR 657 million.
  During the year 2013, Precision Capital acquired some shares of BIL from minority shareholders, increasing its percentage of holding from 89.92% to 89.93%.
  During the year 2014, Precision Capital acquired some shares of BIL from minority shareholders and sold some of the shares to the Grand Duchy of Luxembourg to maintain current ownership balance unchanged.

Note 2a – Statement of compliance

The consolidated accounts presented in this report were approved by the Board of Directors of Precision Capital on 3 June 2015.

The Group consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), including the conditions of application of interest-rate portfolio hedging and the possibility to hedge core deposits. The consolidated accounts provide comparative information in respect of the previous financial year.

The consolidated accounts are prepared on a going concern basis.

In preparing the consolidated accounts under IFRS, the Board of Directors is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the consolidated accounts.

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective for the Group as of 1 January 2014 (for the avoidance of doubt, only the new standards, amendments to standards and IFRIC which may have an effect on the Group's consolidated accounts are mentioned below):

- *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

  These amendments – which are to be applied retrospectively – clarify the meaning of 'currently has a legal enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments have had no impact on the Group's financial position and performance.

- *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets – Amendment to IAS36*

  These amendments remove the unintended consequences of IFRS 13, Fair Value Measurement, on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments have had no impact on the Group's financial position and performance. The amendments have had no impact on the Group's financial position and performance.

- *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

  These amendments – which are to be applied retrospectively – provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have had no impact on the Group's financial position and performance.

- *IFRIC 21 – Levies*

  IFRIC 21 – which is to be applied retrospectively – clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
  The interpretation has had no impact on the Group's financial position and performance.

- *Annual Improvements to IFRS – 2010-2012 Cycle*

  Among the seven standards amended through this recurring improvement process, one relates to *IFRS 13 – Fair Value Measurement* 'Basis for Conclusions' and is therefore effective immediately. That amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.
  The above amendment just makes clear IFRS 13 requirements conform with previous IAS 39 guidance on the topic.

- *IFRS 10 – Consolidated Financial Statements*

  IFRS 10 replaces the portion of *IAS 27 – Consolidated and Separate Financial Statements* that addressed the accounting for consolidated financial statements. It also addresses the issues raised in *SIC 12 – Consolidation - Special Purpose Entities.*
  IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *IFRS 10* require Management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in *IAS 27.*
  In practice however, the application of new *IFRS 10* principles has had no material impact on the Group financial reporting.

- *IFRS 11 – Joint Arrangements*

  IFRS 11 supersedes *IAS 31 – Interests in Joint Ventures* and *SIC 13 – Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. It establishes revised principles for financial reporting by entities that have interest in arrangements that are controlled jointly.
  The Group has no interest in such arrangements. The issuance of *IFRS 11* thus had no impact on the Group's financial position and performance.

- *IFRS 12 – Disclosure of Interests in Other Entities*

  The new *IFRS* includes all disclosures relating to consolidated financial statements previously included in *IAS 27*, as well as all disclosures previously included in *IAS 31 – Interests in Joint Ventures* and *IAS 28 – Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by *IFRS 12* is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the consolidated accounts. Those users will then be able to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation.
  The new disclosure requirements have been considered when preparing these Group consolidated financial statements.

- *IAS 28 – Investments in Associates and Joint Ventures (as revised in 2011)*

  As a consequence of the new *IFRS 11 – Joint Arrangements*, and *IFRS 12 – Disclosure of Interests in Other Entities*, *IAS 28 – Investments in Associates*, has been renamed *IAS 28 – Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
  This amendment of *IAS 28* had no impact on the Group's financial position and performance.

- *Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27*

  The amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.
  These amendments had no impact on the Group's financial position and performance.

The Group has also decided not to early adopt the standards, amendments to standards and interpretations of the IFRIC which have been published but are not applicable to the Group for the year ending 31 December 2014. The Group will adopt these standards on the date of their effective application and when they will be approved by the European Union.

This basically concerns the following publications (only the standards, amendments to standards and IFRIC which may have an effect on the Group's financial position or performance are mentioned below):

- *IFRS 9 – Financial Instruments*

  In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments* which reflects all phases of the financial instruments project and replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of *IFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
  Based on the preliminary analyses performed, the adoption of the new standard will mainly affect the classification and measurement of the Group financial assets and the computation of impairment losses. Further analyses will however have to be carried on in order to quantify the impact of the whole standard on the Group's financial position and performance.

- *Defined Benefit Plans: Employee Contributions – Amendments to IAS 19*

  IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.
  The amendment, which is effective for annual periods beginning on or after 1 July 2014, is not expected to significantly affect the Group's financial position and performance.

- *Annual Improvements to IFRS – 2010-2012 Cycle*

  The annual improvement process amends seven standards. However, no amendment is expected to significantly affect the Group's financial position and performance.
  The improvements – most of which are to be applied for annual periods beginning on or after 1 July 2014 - notably include:

  IFRS 8 – Operating Segments

  The amendments – which are to be applied retrospectively – clarify that:
  - An entity must disclose the judgements made by Management in applying the aggregation criteria in paragraph 12 of *IFRS 8*. This disclosure will include a brief description of operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics;
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similarly to the required disclosure for segment liabilities.

- *Annual improvements to IFRS – 2011-2013 Cycle*

  The annual improvement process amends four standards. However, no amendment is expected to significantly affect the Group's financial position and performance. The improvements – most of which are to be applied for annual periods beginning on or after 1 July 2014 - notably include:

  IAS 40 – Investment Property

  The amendment clarifies:
  - that judgment is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of *IFRS 3*; and

- that this judgment is not based on the *IAS 40* guidance but is instead based on the guidance available in *IFRS 3*.

- *IFRS 15 – Revenue from Contracts with Customers*

  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under *IFRS 15* revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *IFRS 15* provide a more structured approach to measuring and recognising revenue.
  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *IFRS*. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.
  Impact of *IFRS 15* on the Group's financial position and performance has not been assessed yet.

- *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11*

  The amendments to *IFRS 11* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *IFRS 3* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *IFRS 11* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

- *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38*

  The amendments clarify the principle in *IAS 16* and *IAS 38* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group's financial position and performance.

Note 2b – Significant accounting policies

a. Consolidation criteria

All entities controlled – either exclusively or jointly – by Precision Capital, or over which Precision Capital has a significant influence are included in the scope of consolidation.

Precision Capital controls an entity when Precision Capital is exposed, or has rights, to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. Precision Capital has power over an entity when it has existing rights that give it the current ability to direct relevant activities of the entity, i.e. those activities that significantly affect the entity's returns.
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation (i.e. a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for liabilities, relating to the arrangement) or a joint venture (i.e. a joint arrangement whereby the parties sharing joint control have rights to the net assets of the arrangement).
Significant influence is the power to participate in the financial and operating policy decisions of an investee without being exclusive control or joint control.

Entities exclusively controlled by Precision Capital, either directly or indirectly, are consolidated using the full consolidation method.
For a joint operation, Precision Capital recognizes its share of assets, liabilities, income and expense according to the terms of the joint arrangement. Joint ventures and investments in associates (that is, where Precision Capital has significant influence) are accounted for using the equity method.

An entity is included in the scope of consolidation from the date of acquisition, being the date on which Precision Capital obtains control or significant influence over that entity and continues to be included until this control or influence ceases.

The scope of consolidation however excludes those investments which are controlled by Precision Capital or over which Precision Capital has significant influence, but which are regarded as insignificant, i.e. for which the materiality thresholds are not exceeded. Those thresholds relate to the following criteria: share in the Group equity, share in the Group profit and in the Group total balance sheet (increased by the off-balance sheet rights and commitments addressed in the computation of solvency ratios).

b. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset (and consequently, only the net amount is reported) when the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

c. Foreign currency translation

Precision Capital's consolidated accounts are presented in EUR, which is also the functional currency of the Group.

The Group maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the annual accounts of all the consolidated entities which present their accounts in EUR, assets and liabilities in foreign currencies are translated into EUR according to the following principles:

- Monetary items denominated in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement;
- Non-monetary items denominated in foreign currencies measured in terms of historical cost are translated using the historical exchange rate prevailing at the date of the transaction;

- Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the income statement using exchange rates that approximate the rates at the dates of the transactions (e.g. average monthly exchange rates).

Foreign subsidiaries balance sheets denominated in foreign currencies are translated into EUR using the closing rate prevailing at the reporting date (with the exception of the capital, reserves and goodwill, which are translated using historical rates).

Foreign subsidiaries income statements denominated in foreign currencies are translated at the average exchange rate for the financial year.

Exchange differences resulting from the procedures applied to translate balance sheets and income statements of foreign subsidiaries denominated in foreign currencies into EUR are recognised as a separate item in equity.

d. Financial assets and liabilities

(i) General principles of recognition and derecognition of financial instruments

A financial instrument is recognised in the balance sheet when and only when the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or the Group transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

Regular way purchases and sales of financial assets are recognised on the payment date, which is the date on which the asset is delivered. Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets recognised at cost or at amortised cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as available-for-sale.

In the case of sales, the assets at fair value are measured at their sale price during the period between the transaction date and the payment date.

Pursuant to the provisions of IAS 39 on derecognition, the Group keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet.

Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

(ii) Definition of IAS 39 categories of financial assets and financial liabilities

All financial assets and liabilities – including derivatives – must be measured on the balance sheet according to their IAS 39 category. Each category is subject to specific measurement rules.

The IAS 39 categories are the following:

- *Held-to-maturity investments* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that the Group intends and is able to hold to maturity;
- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;

- *Financial assets at fair value through profit or loss* include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held-for-trading unless designated as effective hedging instruments. Other assets initially designated at fair value through profit or loss (frequently referred to as 'the fair value option') are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking.

  The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information either because:

  - A group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy; or
  - Because the application of this option reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

  This option is mainly used by the Group for contracts with one or more embedded derivatives, as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument) and, for insurance subsidiaries, to mirror the valuation of unit-linked financial liabilities.

- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.

- *Financial liabilities at fair value through profit or loss* encompass held-for-trading liabilities and financial liabilities initially designated at fair value through profit or loss.
  Held-for-trading liabilities are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held-for-trading unless designated as effective hedging instruments.

  Financial liabilities initially designated at fair value through profit or loss are those liabilities accounted for under the 'fair value option'. This category is currently used to eliminate or significantly reduce accounting mismatches and for the unit-linked financial liabilities of insurance subsidiaries.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

- *Hedging derivatives* are the derivatives designated in hedging relationships for which hedge accounting is applied

(iii) Evaluation of financial instruments

Financial assets and liabilities are initially recognised at fair value and are then measured in accordance with the principles governing the IAS 39 category in which they are placed.

- **General principles**

Held-to-maturity assets and *Loans and receivables* with a fixed maturity are measured at amortised cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Loans and receivables without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

Other financial liabilities are measured at amortised cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

- **Determination of fair value**

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

When available, published price quotations (unadjusted) on active markets are used to determine the fair value of financial assets or liabilities.
If such quotations are not available, fair value can be determined or derived:

- From quoted prices for similar assets or liabilities in active markets and/or from quoted prices for identical assets or liabilities in markets that are not active;
- By using a valuation technique.

When valuation techniques are used to estimate fair value, those techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted financial methodologies used for pricing financial instruments.
Such techniques encompass discounted cash flow analysis (e.g. for the valuation of interest rate swaps or forward foreign exchange transactions) and option pricing models.

Inputs used in those models (yield curves, exchange rates, volatilities...) are often readily observable on the markets. When measuring fair value, the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

- **Impairment**

Available-for-sale financial assets, held-to-maturity investments and loans and receivables are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*
  For listed shares, any significant or prolonged decline in their price compared to the acquisition cost is considered as an objective evidence of impairment. For debt and other equity instruments, the impairment amount is measured from the recoverable value.
  Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Held-to-maturity investments and Loans and receivables*
  The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Group firstly evaluates if there is an impairment loss for each individually significant item or for each group of items not individually significant. If the Group considers that there is no evidence of an impairment loss for a given asset, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

- **Embedded derivatives**

Derivatives embedded in financial instruments that are not measured at fair value through profit or loss are separated from the financial instrument and measured at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

- **Hedge accounting**

The Group applies hedge accounting to reflect its hedging positions in financial reporting. These can take the form of either fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.

Hedge accounting is applied when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the consolidated accounts for which the hedge was designated.

o Fair value hedges

This heading includes "micro-fair value hedges" and "hedges of the interest rate risk exposure of a portfolio".

Micro-fair value hedge accounting is often used by the Group to cover the exposure of a financial instrument (e.g. loans, available-for-sale bonds and some issued debt securities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the income statement. If the hedged item is an available-for-sale asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedging relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the income statement *prorata temporis* until the instrument expires.

Fair value hedge of the interest rate risk exposure of a portfolio
As indicated in Note 2a here above, the Group makes use of the provisions in IAS 39 as adopted by the European Union (frequently referred to as the "IAS 39 carve-out"). The methodology is applied to some components of the interest-rate risk exposures in several entities within the Group.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

The Group performs an overall analysis of interest-rate risk exposure. It involves assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

The Group applies the same methodology to select which assets and/or liabilities will be entered into the portfolio's hedge of interest-rate risk exposure. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio, based on behavioural study to estimate expected maturity date. The Group may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale (AFS) assets or loan portfolios.

On the basis of this gap analysis, which is carried out on a net basis, the Group defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Hedging items are measured at fair value with fair value changes recognised in the income statement.

Hedged interest rate risk revaluations of elements carried at amortised cost on the balance sheet are reported in assets and liabilities under the lines "Fair value adjustments of hedged items in a portfolio hedge of interest rate risk".

- Cash flow hedges

As regards to cash flow hedges, hedging instruments are measured at fair value. The portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised in the income statement. Hedge accounting is discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments shall be treated as held-for-trading and measured accordingly.

- Hedges of a net investment in a foreign operation

This type of hedge is accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recorded in equity, along with translation differences on the net investment.
The portion is reclassified from equity to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

e. Goodwill, badwill and other intangible assets

Goodwill arising in a business combination is defined as any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired and contingent liabilities recorded at the date of acquisition.

Goodwill arising in a business combination is not amortised but is tested for impairment at least on an annual basis.

An impairment loss is recognised if the carrying amount of the goodwill exceeds its recoverable amount. The recoverable amount may be estimated using various methods such as a Dividend Discount Model, percentage of assets under management or a price/earnings ratio multiple. Impairment losses on goodwill cannot be reversed.

Badwill (negative goodwill) is the excess of the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate at the date of acquisition over the acquisition cost. Where negative goodwill exists after re-examination and re-estimation of the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate, it is immediately recognised as a profit in the income statement.

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Group and the recruitment of all or part of the account officers in charge of client relationships. This type of intangible assets is not amortised, but is tested for impairment at least annually. The criteria and methodologies used for impairment testing are those initially used to measure the purchase price (percentage of assets under management, gross margin multiple, etc.). Whenever available, the result of the impairment test is compared with an estimate based on the parameters deduced from similar transactions.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset. Internal and external expenses incurred during the development phase of internally generated strategic software are initially recognised in assets at cost.
These assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.
Amortisation is calculated using the straight-line method over the estimated useful life. The amortisation period is usually between three and five years, except for some core business applications, for which the amortisation period can be up to ten years.

Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

f. Property and equipment

Property and equipment are initially recognised at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment the use of which is limited in time are depreciated using the straight-line method over their estimated useful lives.

Overview of average depreciation rates

Type	*Depreciation rates*
Land	Non depreciable
Buildings	2%-5%
Technical installations	5%-10%
Furniture	8%-50%
IT hardware	17%-33%
Vehicles	20%-50%
Works of art	Non depreciable

An impairment must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs of disposal).

When property or equipment is sold, realised gains or losses are recognised in the income statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

g. Investment properties

Investment property is property held to earn rentals or for capital appreciation, or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to the Group and if its cost can be measured reliably.

Investment property is measured at cost less any accumulated depreciation and impairment. It is depreciated using the straight-line method over its estimated useful live (average rate: 2% - 5%).

h. Leases

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. The Group concludes lease contracts both as the lessee and as the lessor.

- **The Group is the lessee**

The Group is granted operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the statement of income on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to the Group. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

- **The Group is the lessor**

The Group grants both operating and finance leases.

Revenue from operating leases is recognised in the statement of income on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, the Group recognises a "lease receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.
The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

i. Technical provisions, insurance

Sufficient technical provisions are made to enable the Group to face its commitments resulting from insurance contracts. The reinsurers' share in technical provisions is included within assets on the balance sheet.

- **Provision for unearned premiums**

Premiums earned represent premiums received or receivable for all insurance policies issued before year end. The part of the premiums earned which relates to subsequent accounting periods (i.e. the entrance fee) is calculated individually *prorata temporis* for each contract with fixed duration and deferred through the transfer to the provision for unearned premiums.

- **Life insurance provision**

Life insurance provision, which comprises the actuarial value of the Group's liabilities after deducting the actuarial value of future premiums, is estimated separately for each insurance policy on the basis of mortality tables accepted in Luxembourg. Life insurance provision is calculated on the basis of a prospective actuarial method.

- Discretionary participation feature (DPF)

The provision for DPF is estimated separately for each contract.

j. Pensions

In addition to the general and legally prescribed retirement plans, the Group maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans.

Defined benefit plans are those under which the Group has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods.

Defined contribution plans are those under which the Group has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and the liability on the balance sheet are calculated in accordance with IAS 19 (as revised in 2011), based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

The components of the defined benefit cost are recognized according to the following principles:

(i) Service cost and net interest on the net defined benefit liability / asset are recognized in the income statement;

(ii) Remeasurements of the net defined benefit liability / asset are recognized in other comprehensive income. Remeasurements include:

- Actuarial gains and losses stemming from the remeasurement of the defined benefit obligation;
- The return of plan assets after deducting the portion included in net interest as determined in (i); and
- Any change in the effect of the asset ceiling – also excluding any amount included in net interest as determined in (i).

Remeasurements recognized in other comprehensive income are not reclassified to the income statement in subsequent periods.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

k. Tax assets and liabilities

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rates which have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the carryforward of all unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

l. Provisions

A provision is recognised when and only when the following three conditions are met:

- The Group Has A Present Obligation (At The Reporting Date) As A Result Of A Past Event;
- It Is More Likely Than Not That An Outflow Of Resources Embodying Economic Benefits Will Be Required To Settle This Obligation; And
- The Amount Of The Obligation Can Be Estimated Reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions on loan commitments are recognized when there is uncertainty about the creditworthiness of the counterpart.

m. Financial guarantees

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, cumulative amortisation and (ii) the Group's best estimate of the expenditure required to settle the present obligation at the reporting date.

n. Equity

Equity is the residual interest in the assets of the Group after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of treasury shares, if any, that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period. The 'defined benefit remeasurement reserve' relating to the recognition of certain pension costs is also included in equity. This reserve will however never be subsequently recycled into the income statement.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

o. Revenue

The Group recognises revenue relating to ordinary activities if and only if the following conditions are met:

- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

- **Net interest income**

Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.
All interest paid and received on financial instruments are recorded under the heading "Net interest income" except interest on held-for-trading derivative instruments, which are presented under the heading "Net gains/losses on financial instruments measured at fair value through profit or loss" in the income statement.

- **Dividends**

Dividends are recognised when the right of the Shareholders to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

- **Rendering of services**

Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

- **Gross premiums, insurance**

For single premium business, revenue is recognised on the date on which the policy is effective.

p. Related parties transactions

Two parties are considered to be related if one party has the ability to control the other party, or exercises significant influence over the other party in making financial or operational decisions. The ultimate parent of the Group is Pioneer Holding S.A., incorporated in Luxembourg. Relations with equity-accounted companies are reported in these consolidated accounts.

q. Reclassification of prior year figures

Where necessary, certain prior year figures in the notes to the consolidated accounts have been reclassified to conform with changes to the current year's presentation for comparative purposes.

Note 3 – Net interest income

(in EUR thousand)	31/12/2014	31/12/2013
Breakdown by portfolio		
Interest income	**582,631**	**588,520**
Available-for-sale financial assets	157,632	151,950
Loans and receivables	290,853	272,719
Held to maturity investments	3,393	2,032
Other	13	1,963
Sub-total of interest income from financial assets not measured at fair value through profit or loss	*451,890*	*428,664*
Financial assets held-for-trading	6,987	6,240
Net interest on hedging derivatives	123,754	153,515
Other financial assets at fair value through profit or loss	-	101
Interest expense	**-273,752**	**-320,123**
Financial liabilities at amortised cost	-71,595	-85,810
Other	-363	-457
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	*-71,958*	*-86,267*
Financial liabilities held-for-trading	0	-2
Net interest on hedging derivatives	-169,397	-181,884
Other financial liabilities designated at fair value	-32,397	-51,970
Total	**308,879**	**268,397**

Note 4 – Gross earned premiums, insurance

As of 31 December 2014 and 2013, the gross earned premiums only include individual and single premiums.

Note 5 – Gross technical charges, insurance

(in EUR thousand)	31/12/2014	31/12/2013
Claims paid	-48,473	-140,427
Change in life provision	59,221	145,927
Profit sharing	-	-19
Other technical charges / income	-9,134	-3,502
Total	**1,613**	**1,977**

Note 6 – Dividend income

(in EUR thousand)	31/12/2014	31/12/2013
Equity instruments available-for-sale	11,290	8,844
Equity instruments held-for-trading	373	398
Equity instruments at fair value through profit or loss	1	5
Total	11,663	9,247

Note 7 – Net gains / losses on financial instruments measured at fair value through profit or loss

(in EUR thousand)	31/12/2014	31/12/2013
Held-for-trading (including interest and valuation of trading derivatives)	38,346	74,417
Other financial instruments at fair value	6,145	-3,944
Exchange differences	44,802	38,060
Hedge accounting		
Micro-hedging	-850	24,302
Fair value of hedged items	*235,154*	*-51,773*
Fair value of hedging items	*-236,039*	*51,743*
Cash flow hedging derivatives – ineffective portion	*35*	*24,332*
Macro-hedging	152	-75
Fair value of hedged items	*-13,638*	*17,380*
Fair value of hedging items	*13,790*	*-17,455*
Total	88,595	132,760

Note 8 – Net gains / losses on financial assets and liabilities not measured at fair value through profit or loss

(in EUR thousand)	31/12/2014	31/12/2013
Available-for-sale financial assets	**111,979**	**44,706**
Debt instruments	53,414	28,471
Equity instruments	58,565	16,235
Loans and receivables	**-1,907**	**2,874**
Financial liabilities at amortised cost	**3,896**	**38,944**
Other	**0**	**-5,433**
Total	113,968	81,091

Note 9 – Net fee and commission income

(in EUR thousand)	31/12/2014	31/12/2013
Fee and commission income	**592,858**	**613,914**
Asset management	380,677	388,474
Securities transactions	138,967	142,729
Other [1]	73,214	82,711
Fee and commission expense	**-88,363**	**-99,228**
Asset management	-42,515	-62,135
Securities transactions	-15,130	-27,947
Other [1]	-30,718	-9,146
Total	**504,495**	**514,686**
[1] of which net commissions on Unit Link activities of the insurance subsidiary	11,091	12,835

Note 10 – Other net income

(in EUR thousand)	31/12/2014	31/12/2013
Total	**696**	**14,919**
Rental income	15,669	17,671
Wealth tax	-1,412	1,445
Tax on property	-1,146	1,263
Maintenance and repair on investment property	-1,175	-4,306
Other operating income	-11,240	-1,154

Other net operating income/expense include non-recurring amounts relating to reimbursements, write-back of provisions and other extraordinary income/loss.

Note 11 – Operating expenses

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

(in EUR thousand)	31/12/2014	31/12/2013
Staff expenses	-477,950	-472,205
General administrative expenses	-235,388	-241,625
Depreciation and amortisation of property and equipment, intangible assets and investment properties (Note 28 and Note 29)	-77,660	-68,066
Net provision allowances (Note 31)	-12,317	-14,255
Total	**-803,315**	**-796,151**

Note 12 – Staff

	31/12/2014	31/12/2013
Total average number of persons employed (in full-time equivalents - FTE)	**4,038**	**4,008**

Note 13 – Impairment

(in EUR thousand)	31/12/2014	31/12/2013
(Impairment)/reversal of impairment of:		
Loans and receivables	-20,081	-32,719
Available-for-sale financial assets	-3,694	-3,142
Goodwill	-23	-133
Other	-	-97
Total	**-23,798**	**-36,091**

Impairment of loans and receivables

(in EUR thousand)	31/12/2014	31/12/2013
Breakdown by type		
(Impairment)/reversal of impairment:		
Specific impairment of loans and receivables	-13,395	-34,468
Portfolio-based impairments	-6,686	1,749
Total	**-20,081**	**-32,719**

See also Note 23 – Impairment of loans and receivables.

Impairment of available-for-sale financial assets

(in EUR thousand)	31/12/2014	31/12/2013
(Impairment)/reversal of impairment of:		
Debt instruments	-11	-1,818
Equity instruments	-3,684	-1,324
Total	**-3,694**	**-3,142**

See also Note 22 – Impairment of available-for-sale financial assets.

Impairment of goodwill

(in EUR thousand)	31/12/2014	31/12/2013
Purchased portfolio of customers	-19	-133
Goodwill	-4	-
Total	**-23**	**-133**

All the goodwills reported as at 31 December 2014 and 2013 are related to acquisitions performed by Precision Capital in the second half-year of 2012, they have been accounted for at fair value at acquisition date.
The values of goodwill in the Group's consolidated accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter.

Impairment of other

(in EUR thousand)	31/12/2014	31/12/2013
Tangible Fixed assets	-	-97
Total	-	-97

See also Note 29 – Property and equipment and investment properties.

Note 14 – Share of profit of associates

(in EUR thousand)	31/12/2014	31/12/2013
European Fund Administration S.A. and EFA Partners S.A.	-52	142
Europay	249	-
Bourse de Luxembourg	3,404	-
Total	**3,601**	**142**

Note 15 – Income tax (expenses) / income

(in EUR thousand)	31/12/2014	31/12/2013
Breakdown by type		
Current tax	-11,328	6,066
Deferred tax	-49,279	-47,041
Total	**-60,608**	**-40,975**

(in EUR thousand)	31/12/2014	31/12/2013
Breakdown by major components:		
Profit before tax	206,138	190,482
Luxembourg income tax rate	29.22%	29.22%
Income tax calculated at the Luxembourg income tax rate	**-60,233**	**-55,659**
Plus/minus tax effects attributable to:		
Differences in tax rates, Luxembourg – abroad	-10,997	4,381
Tax free-income	12,507	1,779
Other non-deductible expenses	-2,848	-2,903
Adjustments related to prior years	2,402	16,510
Adjustments to opening balance due to tax rate change	-31	-420
Unused tax losses and tax credits	-708	-118
Other	-699	-4,545
Income tax adjustments	**-374**	**14,684**
Total	**-60,608**	**-40,975**

Details of tax assets and liabilities are given in Note 26.

Note 16 – Classification of financial instruments: breakdown by portfolio and by product

- Financial instruments are classified into several categories ("portfolios"). Details of these various categories and the valuation rules linked to them are given in Note 2b, point d, dealing with financial assets and liabilities (IAS 39).
- The balance sheet analysis below have been conducted at the clean price. Thus the interest accrued is presented separately, except for trading derivatives, which are presented at the dirty price.

CARRYING AMOUNT
(in EUR million)

31/12/2014

ASSETS	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Held-to-maturity (HTM)	Hedging derivatives	Total
Loans and advances to credit institutions	-	-	-	2,836	-	-	2,836
Loans and advances other than with credit institutions	-	-	-	13,269	-	-	13,269
Consumer credits	-	-	-	397	-	-	397
Mortgage loans	-	-	-	4,204	-	-	4,204
Term loans	-	-	-	6,492	-	-	6,492
Finance leasing	-	-	-	176	-	-	176
Current accounts	-	-	-	1,913	-	-	1,913
Securitized loans	-	-	-	-	-	-	-
Other	-	-	-	87	-	-	87
Investment contracts (Insurance "branche 23")	-	1,943	-	-	-	-	1,943
Equity instruments	5	4	330	-	-	-	339
Debt instruments	552	-	9,423	12	164	-	10,150
Government bodies	337	-	5,551	-	143	-	6,031
Credit institutions	137	-	2,232	12	21	-	2,402
Corporates	78	-	1,639	-	-	-	1,717
Financial derivatives	596	-	-	-	-	136	733
Total	1,153	1,947	9,753	16,116	164	136	29,268
Of which reverse repos				1,347			1,347

CARRYING AMOUNT
(in EUR million)

31/12/2013

ASSETS	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Held-to-maturity (HTM)	Hedging derivatives	Total
Loans and advances to credit institutions	-	-	-	3,548	-	-	3,548
Loans and advances other than with credit institutions	-	-	-	12,334	-	-	12,334
Consumer credits	-	-	-	284	-	-	284
Mortgage loans	-	-	-	4,020	-	-	4,020
Term loans	-	-	-	5,279	-	-	5,279
Finance leasing	-	-	-	176	-	-	176
Current accounts	-	-	-	2,065	-	-	2,065
Securitized loans	-	-	-	418	-	-	418
Other	-	-	-	92	-	-	92
Investment contracts (Insurance "branche 23")	-	1,856	-	-	-	-	1,856
Equity instruments	4	7	565	-	-	-	577
Debt instruments	242	0	8,880	-	40	-	9,162
Government bodies	14	0	5,458	-	40	-	5,512
Credit institutions	107	-	1,730	-	-	-	1,837
Corporates	121	-	1,692	-	-	-	1,813
Financial derivatives	795	-	-	-	-	180	974
Total	1,041	1,863	9,445	15,883	40	180	28,452
Of which reverse repos	-	-	-	2,161	-	-	2,161

CARRYING AMOUNT
(in EUR million)

31/12/2014

LIABILITIES	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	-	-	-	3,021	3,021
Deposits from other than credit institutions	-	-	-	20,675	20,675
Current accounts/demand deposits	-	-	-	14,361	14,361
Time deposits	-	-	-	6,245	6,245
Other deposits	-	-	-	68	68
Debt certificates	-	-	-	1,759	1,759
Deposits certificates	-	-	-	69	69
Customer savings bonds	-	-	-	1	1
Non-convertible bonds	-	-	-	1	1
Debt certificates	-	-	-	1,013	1,013
Convertible subordinated liabilities	-	-	-	150	150
Non-convertible subordinated liabilities	-	-	-	525	525
Investment contracts (insurance)	-	2,966	-	-	2,966
Financial derivatives	557	-	589	-	1,146
Short sales	2	-	-	-	2
Equity instruments	0	-	-	-	0
Debt instruments	2	-	-	-	2
Total	559	2,966	589	25,454	29,568
Of which repos				833	833

CARRYING AMOUNT
(in EUR million)

31/12/2013

LIABILITIES	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	-	-	-	2,741	2,741
Deposits from other than credit institutions	-	-	-	19,697	19,697
Current accounts/demand deposits	-	-	-	11,358	11,358
Time deposits	-	-	-	4,281	4,281
Other deposits	-	-	-	4,057	4,057
Debt certificates	-	1,795	-	1,644	3,438
Deposits certificates	-	-	-	65	65
Customer savings bonds	-	-	-	1	1
Debt certificates	-	-	-	90	90
Non-convertible bonds	-	1,795	-	825	2,620
Non-convertible subordinated liabilities	-	-	-	662	662
Investment contracts (insurance)	-	1,856	-	-	1,856
Financial derivatives	806	-	374	-	1,181
Short sales	6	-	-	-	6
Equity instruments	0	-	-	-	0
Debt instruments	6	-	-	-	6
Total	812	3,651	374	24,082	28,919
Of which repos	-	-	-	692	692

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value, excluding accrued interest.

(in EUR million)	Carrying amount 31/12/2014	Carrying amount 31/12/2013	Fair value 31/12/2014	Fair value 31/12/2013
ASSETS				
Loans and advances to credit institutions	2,836	3,548	2,836	3,545
Loans and advances to other than credit institutions	13,269	12,334	13,424	12,428
Financial assets held to maturity	164	40	176	41
LIABILITIES				
Deposits from credit institutions	3,021	2,741	3,025	2,741
Deposits from other than credit institutions	20,675	19,697	20,685	19,698
Debt certificates	1,759	1,644	1,763	1,641

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) price on an active market for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

31/12/2014 (in EUR million)	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Held-for-trading	**479**	**659**	**15**	**1,153**
Equity instruments	1	3	0	5
Debt instruments	416	132	4	552
Derivatives	62	524	10	596
At fair value through profit or loss	**-**	**1,947**	**-**	**1,947**
Available-for-sale financial assets	**7,914**	**1,495**	**340**	**9,749**
Equity instruments (excluding instruments at cost)	130	126	70	326
Debt instruments	7,784	1,369	270	9,423
Held to maturity	**-**	**176**	**-**	**176**
Loans and receivables	**-**	**16,257**	**15**	**16,272**
Loans and advances to credit institutions	-	2,836	-	2,836
Loans and advances to other than credit institutions	-	13,409	15	13,424
Debt instruments	-	12	-	12
Hedging derivatives	**-**	**136**	**-**	**136**
Total	**8,393**	**20,670**	**370**	**29,433**
LIABILITIES				
Held-for-trading	**65**	**492**	**2**	**559**
Equity instruments	-	0	-	0
Debt instruments	2	0	0	2
Derivatives	64	491	2	557
At fair value through profit or loss	**-**	**2,741**	**225**	**2,966**
Hedging derivatives	**-**	**589**	**-**	**589**
Financial liabilities at amortized cost	**-**	**25,473**	**-**	**25,473**
Deposits from credit institutions	-	3,025	-	3,025
Deposits from other than credit institutions	-	20,685	-	20,685
Debt certificates	-	1,763	-	1,763
Total	**65**	**29,295**	**227**	**29,587**

31/12/2013 (in EUR million)	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Held-for-trading	**246**	**780**	**16**	**1,041**
Equity instruments	4	0	-	4
Debt instruments	151	89	1	242
Derivatives	90	690	14	795
At fair value through profit or loss	**1,863**	**-**	**-**	**1,863**
Available-for-sale financial assets	**8,928**	**479**	**28**	**9,435**
Equity instruments (excluding instruments at cost)	455	72	28	555
Debt instruments	8,473	407	-	8,880
Held to maturity	**-**	**41**	**-**	**41**
Loans and receivables	**-**	**15,883**	**-**	**15,883**
Loans and advances to credit institutions	-	3,548	-	3,548
Loans and advances to other than credit institutions	-	12,334	-	12,335
Hedging derivatives	**-**	**179**	**0**	**179**
Total	**11,037**	**17,361**	**44**	**28,442**
LIABILITIES				
Held-for-trading	**97**	**710**	**4**	**812**
Equity instruments	-	-	-	-
Debt instruments	5	0	-	6
Derivatives	92	710	4	806
At fair value through profit or loss	**1,856**	**1,479**	**315**	**3,651**
Hedging derivatives	**-**	**375**	**0**	**375**
Financial liabilities at amortized cost	**233**	**23,848**	**-**	**24,082**
Deposits from credit institutions	-	2,741	-	2,741
Deposits from other than credit institutions	-	19,697	-	19,697
Debt certificates	233	1,411	-	1,644
Total	**2,187**	**26,413**	**320**	**28,919**

Level 3 items measured at fair value (including accrued interests)

Assets (in EUR million)	Held-for-trading financial assets	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Total
Balance as at 01/01/2014	**16**	**-**	**28**	**-**	**44**
Total profit / loss for the year	-2	-	1	-	-1
- recognised in the income statement	-2	-	3	-	1
- recognised in other components of comprehensive income	-	-	-2	-	-2
Purchases	7	-	219	-	226
Sales	-3	-	-4	-	-7
Transfers from / to level 3	-3	-	96	-	92
Balance as at 31/12/2014	**15**	**-**	**340**	**-**	**355**
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2014	-	0	-	-	0

Liabilities (in EUR million)	Held-for-trading financial liabilities	Financial instruments measured at fair value through profit or loss	Hedging derivatives	Total
Balance as at 01/01/2014	**4**	**315**	**-**	**320**
Total profit / loss for the year	-1	3	-	2
- recognised in the income statement	-1	3	-	2
- recognised in other components of comprehensive income	-	-	-	-
Purchases	1	71	-	72
Sales	-3	-82	-	-86
Transfers from / to level 3	1	-81	-	-80
Conversion differences	0	-1	-	-1
Balance as at 31/12/2014	**2**	**225**	**-**	**227**
Total profit / loss for the year recognised in the income statement and relating to liabilities held as at 31/12/2014	-	-	-	-

Assets (in EUR million)	Held-for-trading financial assets	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Total
Balance as at 01/01/2013	**204**	**37**	**27**	**39**	**306**
Total profit / loss for the year	9	1	-1	-4	6
- recognised in the income statement	9	1	-	24	35
- recognised in other components of comprehensive income	-	-	-1	-29	-29
Purchases	3	-	-	-	3
Sales	-96	-1	-	-27	-125
Transfers from / to level 3	-105	-37	2	-7	-147
Balance as at 31/12/2013	**16**	**-**	**28**	**-**	**44**
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2013	16	1	-	-	18

Liabilities (in EUR million)	Held-for-trading financial liabilities	Financial instruments measured at fair value through profit or loss	Hedging derivatives	Total
Balance as at 01/01/2013	**183**	**490**	**2**	**675**
Total profit / loss for the year	-18	27	-	9
- recognised in the income statement	-18	27	-	9
- recognised in other components of comprehensive income	-	-	-	-
Purchases	-	48	-	48
Sales	-82	-220	-1	-303
Transfers from / to level 3	-79	3	-1	-77
Conversion differences	-	-33	-	-33
Balance as at 31/12/2013	**4**	**315**	**-**	**320**
Total profit / loss for the year recognised in the income statement and relating to liabilities held as at 31/12/2013	5	-	-	5

KBL epb

Level 3 positions mainly include investments in Private Equity structures, holdings in unlisted equity instruments and other participating interests. Most significant positions – which are all available-for-sale financial assets – are further commented here below.

Private Equity holdings include two main positions whose global fair value recognized in the statement of financial position at year end amounts to EUR 25.3 million.

The first one (EUR 20.7 million) consists in shares held in a sub-fund (SIF / SICAV) whose investment objective is to build a balanced portfolio of properties in order to derive benefits from changes in the demand for and supply of wood products and biomass. The fund currently owns forests and a farm in Eastern Europe.
The fund net asset value (NAV) is measured on a yearly basis and published in audited financial statements. The valuation of the underlying assets of the fund (i.e. the biological and tangible assets) is performed by two independent appraisers appointed by the Board of Directors of the fund (in accordance with the Private Placement Memorandum).

Methodologies used by the appraisers to fair value the underlying assets range from 'market comparison' approaches (where fair value is derived from most recent valuations / transactions observed on similar assets in the same area, adjusted for the main differences identified between the proxy asset and the target asset to be fair valued) to pure 'income approaches' (DCF method). The DCF computation is based on the latest business plan prepared by the fund managers and on assumptions which include, among others, the discounting rate used, inflation rates, exit yield, sales growth targets, crop productivity levels and costs.

DCF Model
Current biomass selling prices have been estimated based on prices identified on the market. Those prices are expected to double by 2020; afterwards, the increase is expected to converge to 0% in 2030. This evolution reflects (i) expectations that the biomass market will gradually reach maturity over the following years and (ii) the liberalization of the gas market to take place in the area where the entity operates and which should lead to significant increase of gas prices.
Agriculture crop yields are also expected to record a gradual increase in productivity levels, following expected improvement of the soil quality through intensive sub-soiling and plowing activities. Energy crop yields have been estimated based on technical studies. The basic estimated discounting rates have been calculated using the Capital Asset Pricing Model, which led to estimates of 8.1% (for the forests) and 8.6% (for the farm activities).
For the key assumptions of timber price, biomass price, food and energy crops productivity and discounting rates that have significant impact on fair value of forest properties and farm activities, sensitivity analyses were performed.
Those analyses led to fund NAV per share estimates which ranged from EUR 105.4 to EUR 124.5.

The market comparison approach led to a range of NAV valuation from EUR 103.4 to EUR 109.9.

Considering (i) the numerous significant assumptions used in the DCF valuation methodology, (ii) the lack of historical experience (back-testing of the applied model), (iii) the fact the underlying activity has still not reached the break-even point and (iv) the illiquidity of the position, KBL *epb* group management tentatively decided to value this investment to EUR 105.1 per share.

The second investment (EUR 4.6 million) relates to a company whose investment policy is to hold a portfolio of retail parks throughout Europe (+/- 50% in Western Europe and +/- 50% in Eastern Europe).
Some of the parks currently held by the company are already operational and generate a yield; others are in construction or are just projects under review for future potential investments.
KBL *epb* group investment has been priced based on the valuation report received from the company. That valuation has itself been built on the fair valuations of the retail parks, as measured by an independent valuation expert appointed by the management of the company. KBL *epb* group has noted that the valuation of the company simply reflects valuations of the parks received from the valuation expert, with one adjustment (capitalized costs relating to one project under way which have been written down to reflect some uncertainties regarding future developments).
Latest information received from the company indicates that business performance is solid and that the company may shortly initiate a first distribution to its investors.
KBL *epb* group management considered valuation measurement basis as robust. In addition, the evolution of fair value matches previous expectations and is otherwise corroborated by latest business performance updates. It thus decided to retain the valuation received as the best estimate of the investment fair value at year end.

Other participating interests mainly include two holdings for a global fair value of EUR 14.4 million.

The first one (EUR 8.8 million) relates to an interest in a company offering securities settlement services. The company is not traded in an active market but recently offered its shareholders a buy-back opportunity. Willing shareholders were thus invited to submit a tender offer to the company. Share prices of the tenders which were subsequently accepted by the company have been made public. Valuations per share derived from these tender offers ranged from EUR 544.2 to EUR 671.7 (weighted average: EUR 642.97).
KBL epb Group also performed alternative valuations deriving from the latest financial information received from the company and current market data observed for peer entities (accounting Net Asset Value, Discounted Dividend Model and valuation based on the P/E ratio). The average price per share deriving from these alternative methodologies amounted to EUR 611.2.
Considering that this average was also consistent with prices observed in the tender process, KBL epb Group decided to use this amount to value its investment at year-end.

The other position is a participating interest in a stock exchange (EUR 5.6 million). For this holding, KBL epb Group retained the valuation performed by an independent appraiser appointed by the company.
Valuation estimates were computed using two different approaches: a discounted cash flow approach (DCF) and P/E multiples.
The DCF model notably included a weighted average cost of capital of 7.98%, a long term growth rate of 1%, a liquidity discount of 15% as well as a minority discount of 15%. P/E multiples were computed from average peers P/E ratios of 19.8 (actual 2013) and 16.3 (forecast 2014). Average fair value stemming from both models was then estimated to be EUR 1,496 per share; this figure has been used to fair value the position in KBL epb Group financial statements at year-end.
The appraisal report also included a sensitivity analysis under various scenarios and for both models. Under that analysis, computed fair values ranged from EUR 1,246 to 1,862 per share.

BIL

Changes in the amounts declared under Level 3 in 2013 and 2014 can be explained as follows:

The "Total gains and losses in the statement of income" column cannot be analysed separately as such. Indeed, certain assets and liabilities at amortised cost or classified under Level 1 or 2 may be hedged by derivatives classified under Level 3.
Following the Asset Quality Review (AQR) performed in the context of the comprehensive assessment led by the European Central Bank, BIL has elaborated a procedure defining the criteria for an active market and the notions of observable and non-observable inputs. These definitions have led the Bank to reconsider the levels of existing positions and led to changes in the levels of some banking and structured bonds activities.

- Banking bonds

For each position, the Financial Risk Management (FRM) department has obtained from Bloomberg the following information:

- The bid and ask spread;
- The issue size (with type of issuer and currency);
- Number of contributors providing a direct observable price.

Following these criteria, FRM has submitted a level for advise to a market expert.

The market expert has pointed out that some instruments are still in an active market even though all the criteria are not filled. Therefore, we need to consider the following information:

a) The rarity of the issue: when the overall issuer debt is relatively low, or in the case of securities issued by issuers outside the Eurozone. This is the case of issues from Poland, the Czech Republic (EUR -area size and debt), Slovakia and Lithuania (loan size). The bid/ask spread observed on these bonds can be relatively low as well as the number of contributors.
b) Securitisations: prices are not available on Bloomberg, therefore there is no spread, nor any contributor. However, they are reported on a daily basis by traders and there are at least five contributors per security.
c) The investors "buy and hold" behavior: certain issues are sought by investors but retained in their portfolio, therefore there are less sellers than buyers and as a result the bid / ask spread is low and there are sometime limited contributors. This is particularly the case for emissions from Qatar, Abu Dhabi and Luxembourg.

By taking these rules into consideration, 8 instruments have been transferred from Level 1 to Level 2 and 1 instrument has been transferred from Level 2 to Level 3.

- Structured bonds

Levels of structured products as at December 31, 2013 have been set according to the observability of the spot, the forward and the volatility as communicated by Finalyse who is in charge of the valorisation of structured products. The rule applied was the following: if the volatility or the forward are not observable, the instrument is classified in Level 3.
In order to define the levels as at December 31, 2014, Finalyse has communicated for each product the type of data required for the valorisation as well as whether these data are observable or not. The range of data used is therefore larger than in 2013.

Moreover, the market expert has been requested to evaluate the impact of the non observability of the forward data. The expert concludes that forwards SX5E indices such as SMI are known and observable via futures. Regarding equity single underlyings, when the product is of short maturity and annually callable, the next forward is also known and observable.
By taking these rules into consideration, 4 structured products have been transferred from Level 2 to Level 3 due to the correlation and 31 products have been transferred from Level 3 to Level 2 (Equity products linked to SY5E or SMI or with short maturity).
This new methodology is more complete as it uses a broader and more detailed range of data.

However, the impact on the statement of income is relatively limited as the structured financial instruments are fully hedged against interest-rate risk as well as against the risks linked to the structure via the use of fully-backed derivatives.
It should be noted that Level 3 financial instruments held for trading are the result of buy-backs of BIL issues.

Sensitivity of level 3 valuation of alternative scenarios

BIL uses a discounted cash flow model to determine the mark-to-model price. Sensitivity is a measurement of the fair value impact of alternative scenarios relating to the model's unobservable parameters at the closing date.

With regard to the spread valuation, in cases where BIL uses its own models, alternative scenarios relating to unobservable parameters were taken into consideration, in particular for:

- Liquidity premiums: by considering the different levels of premiums primarily used in determining the fair value of bonds, and which depend in particular on the eligibility of the security for refinancing with the central banks;
- The illiquidity of the financial instrument: by considering a change in the estimated liquidity of the market for a single instrument or similar products, and/or by incorporating an analysis of the bid-ask spread for real transactions.

Tests were carried out on all financial instruments classified under Level 3.

The effects of sensitivity are mainly felt at the level of structured issues recognised at fair value through profit or loss. These effects are, however, offset by a reverse sensitivity at the level of activity-related hedging derivatives.

The most significant stand-alone Level 3 instrument is BIL's participation in Luxair SA. The sensitivity test leads to a minor impact in the OCI reserve. Nevertheless, such a sensitivity analysis is not relevant as many factors (such as fuel market volatility and global economic context) may impact Luxair's valuation.

Transfers between the level 1 and level 2 categories

31/12/14 ASSETS (in EUR million)	From Level 1 to Level 2	From Level 2 to Level 1
Held-for-trading	**30**	**0**
Equity instruments	1	0
Debt instruments	29	-
Available-for-sale financial assets	**769**	**101**
Equity instruments(excluding instruments at cost)	85	-
Debt instruments	684	101
LIABILITIES (in EUR million)		
Held-for-trading	**0**	**-**
Equity instruments	0	-
Debt instruments	0	-

31/12/13 ASSETS (in EUR million)	From Level 1 to Level 2	From Level 2 to Level 1
Held-for-trading	8	6
Equity instruments	-	-
Debt instruments	8	6
Available-for-sale financial assets	115	47
Equity instruments(excluding instruments at cost)	8	5
Debt instruments	107	41
LIABILITIES (in EUR million)		
Held-for-trading	-	-
Equity instruments	-	-
Debt instruments	-	-

Group policy for determining the timing of the transfers

The transfers disclosed in the above table are deemed to have occured at the end of the reporting period.
Transfers are thus measured at the closing fair values of the related items.

Reasons for those transfers

All transfers between categories mainly reflect a change in the Group assessment of the current liquidity of underlying instruments, compared to the previous analysis performed as at 31 December 2013.

All transfers disclosed are deemed to have occurred at the end of the reporting period. Transfers are thus measured at the closing fair values of the related items.

Note 17 – Available-for-sale financial assets, Loans and receivables and Held-to-maturity: breakdown by portfolio and quality

(in EUR million)	Held-to-maturity (HTM)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2014				
Unimpaired assets	164	9,739	16,069	**25,808**
Impaired assets	-	42	366	**408**
Impairment	-	-29	-319	**-348**
Total	**164**	**9,753**	**16,116**	**25,868**

(in EUR million)	Held-to-maturity (HTM)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2013				
Unimpaired assets	40	9,416	15,826	**25,282**
Impaired assets	-	80	349	**429**
Impairment	-	-51	-292	**-343**
Total	**40**	**9,445**	**15,883**	**25,368**

Note 18 – Financial assets and liabilities: breakdown by portfolio and residual maturity [1]

(in EUR million)	Held-for-trading (HFT) assets (1)	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Held-to-maturity (HTM)	Total
ASSETS						
31/12/2014						
Less than or equal to 1 year	395	-	818	5,216	-	**6,429**
More than 1 but less than or equal to 5 years	76	-	5,003	4,858	39	**9,978**
More than 5 years	80	-	3,664	6,042	125	**9,910**
Indefinite period	5	1,947	268	-	-	**2,219**
Total	**557**	**1,947**	**9,753**	**16,116**	**164**	**28,536**
31/12/2013						
Less than or equal to 1 year	78	-	1,515	8,536	-	**10,129**
More than 1 but less than or equal to 5 years	108	-	3,796	1,458	40	**5,402**
More than 5 years	57	0	3,658	5,723	-	**9,438**
Indefinite period	4	1,863	476	165	-	**2,509**
Total	**246**	**1,863**	**9,445**	**15,883**	**40**	**27,478**

[1] excluding derivatives

(in EUR million)	Held-for-trading (HFT) liabilities (1)	Financial instruments at fair value (FIFV) through profit or loss	Liabilities at amortised cost	Total
LIABILITIES				
31/12/2014				
Less than or equal to 1 year	0	423	23,139	23,562
More than 1 but less than or equal to 5 years	0	424	2,092	2,516
More than 5 years	0	176	223	399
Indefinite period	2	1,943	1	1,945
Total	2	2,966	25,454	28,422
31/12/2013				
Less than or equal to 1 year	0	836	8,297	9,133
More than 1 but less than or equal to 5 years	0	705	250	955
More than 5 years	1	254	15,504	15,759
Indefinite period	5	1,856	31	1,892
Total	6	3,651	24,082	27,738

(1) excluding derivatives

Note 19 – Offsetting of financial assets and liabilities

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet position when, and only when the Group:

- Currently has a legally enforceable right to set off the recognized amounts; and
- Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group currently has no legally enforceable right which satisfies the above conditions. It follows that all amounts presented on the face of the balance sheet are gross amounts.

The Group however frequently enters into Master Netting Agreements ("MNA") with its counterparties to manage the credit risks associated primarily with (i) repurchase and reverse repurchase transactions, (ii) securities borrowing / lending and (iii) over-the-counter derivatives.
These arrangements may also be supplemented by collateral agreements.

Offsetting rights provided for by such MNA are generally conditional upon the occurrence of some specific future events (typically the events of default, insolvency or bankruptcy of the counterparty). They are thus not current, which prevents the Group from setting the related assets and liabilities off on the balance sheet.
Similarly, the rights of set off relating to the cash and other financial instrument collateral are also conditional upon the default of the counterparty.

The financial impact of the MNA potential offsetting opportunities are disclosed in the following tables. Only Global Master Repurchase Agreements (GMRA) for repurchase agreements and International Swaps and Derivatives Association Master Agreement (ISDA) for over-the-counter derivatives have been considered.

The effect of Master Netting Agreements relating to securities lending and borrowing has not been reported because, as underlined in the Group's significant accounting policies (cf. Note 2b), those transactions are not recognized on the balance sheet (i.e. securities lent are not derecognized from the balance sheet and securities borrowed are not recognized within assets). Notes 20 and 21 give additional information on those activities and on the related financial collateral received / pledged.

ASSETS (in EUR million) 31/12/2014	Gross amounts of financial assets presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial liabilities	Impact of Master Netting Agreements: Financial collateral received (securities and cash)	Net amount
Cash and balances with central banks	2,193	-	-	2,193
Financial assets				
Hedging and trading derivatives	733	-168	-50	514
Held-for-trading assets (excluding derivatives)	557	-	-	557
Assets designated at fair value through profit or loss	1,947	-	-	1,947
Available-for-sale financial assets	9,753	-	-	9,753
Loans and receivables	16,116	-368	-771	14,977
Held to maturity	164	-	-	164
Total	**31,461**	**-537**	**-821**	**30,103**

LIABILITIES (in EUR million) 31/12/2014	Gross amounts of financial liabilities presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial assets	Impact of Master Netting Agreements: Financial collateral pledged (securities and cash)	Net amount
Financial liabilities				
Hedging and trading derivatives	1,146	-168	-183	795
Held-for-trading liabilities (excluding derivatives)	2	-	-	2
Liabilities designated at fair value through profit or loss	2,966	-	-	2,966
Liabilities measured at amortized cost	25,454	-368	-90	24,995
Total	**29,568**	**-537**	**-273**	**28,758**

ASSETS (in EUR million) 31/12/2013	Gross amounts of financial assets presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial liabilities	Impact of Master Netting Agreements: Financial collateral received (securities and cash)	Net amount
Cash and balances with central banks	2,388	-	-	2,388
Financial assets				
Hedging and trading derivatives	974	-121	-436	417
Held-for-trading assets (excluding derivatives)	246	-	-	246
Assets designated at fair value through profit or loss	1,863	-	-	1,863
Available-for-sale financial assets	9,445	-	-	9,445
Loans and receivables	15,883	-126	-1,899	13,857
Held to maturity	40	-	-	40
Total	**30,839**	**-247**	**-2,335**	**28,257**

LIABILITIES (in EUR million) 31/12/2013	Gross amounts of financial liabilities presented on the balance sheet	Impact of Master Netting Agreements: Netting potential / financial assets	Impact of Master Netting Agreements: Financial collateral pledged (securities and cash)	Net amount
Financial liabilities				
Hedging and trading derivatives	1,181	-121	-688	372
Held-for-trading liabilities (excluding derivatives)	6	-	-	6
Liabilities designated at fair value through profit or loss	3,651	-	-	3,651
Liabilities measured at amortized cost	24,082	-126	-552	23,403
Total	**28,920**	**-247**	**-1,240**	**27,432**

Note 20 – Securities lending and securities given in guarantee

The Group regularly carries out transactions in which the assets transferred do not qualify for derecognition under IAS 39. The related securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.
This mainly concerns the following operations:

- Repurchase agreements ("repo");
- Securities lending; and
- Securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

31/12/2014 (in EUR million)	Repo (**) Debt instruments	Securities lending Debt instruments	Securities lending Equity instruments	Collateral given for securities borrowing (***) Debt instruments	Other Debt instruments
Held-for-trading financial assets	-	1	-	-	3
Available-for-sale financial assets	695	36	-	63	561
Total financial assets not derecognised	**695**	**38**	**-**	**63**	**565**
Other (*)	135	278	-	412	51
Total	**829**	**316**	**-**	**474**	**615**

31/12/2013 (in EUR million)	Repo (**) Debt instruments	Securities lending Debt instruments	Securities lending Equity instruments	Collateral given for securities borrowing (***) Debt instruments	Other Debt instruments
Held-for-trading financial assets	-	1	-	-	-
Available-for-sale financial assets	446	103	-	749	516
Total financial assets not derecognised	**446**	**104**	**-**	**749**	**516**
Other (*)	234	1,032	-	598	70
Total	**680**	**1,136**	**-**	**1,347**	**586**

(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.
(**) The carrying amount of debts associated with repo operations is available in Note 16.
(***) Fair value of securities borrowed: EUR 390 million at 31/12/2014 (EUR 1,218 million at 31/12/2013)

Note 21 – Securities received in guarantee

The Group mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending.
These securities are generally transferred under full ownership and the Group is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

(in EUR million)	31/12/2014	31/12/2013
Reverse repurchase agreements	1,352	2,178
Collateral received in securities lending	310	1,169
Total	**1,661**	**3,347**
of which transferred to:		
Repurchase agreements	25	216
Securities lent	-	18
Collateral given for securities borrowing	412	598
Other	51	69
Total	**487**	**901**

Note 22 – Impairment of available-for-sale financial assets

Changes (in EUR million)	Debt instruments	Equity instruments
Balance as at 01/01/2014	5	45
Changes affecting the income statement	0	4
Allowances	0	4
Reversals	0	-
Changes not affecting the income statement	0	-26
Change in the scope of consolidation	-	-
Securities sold/matured	0	-27
Other	0	2
Balance as at 31/12/2014	**6**	**23**

Changes (in EUR million)	Debt instruments	Equity instruments
Balance as at 01/01/2013	11	67
Changes affecting the income statement	2	1
Allowances	2	1
Reversals	-	-
Changes not affecting the income statement	-7	-23
Change in the scope of consolidation	-	-
Securities sold/matured	-7	-23
Other	-	-
Balance as at 31/12/2013	**5**	**45**

Note 23 – Impairment of loans and receivables

(in EUR million)	31/12/2014	31/12/2013
Total	319	292
Breakdown by type	**319**	**292**
Specific impairments of loans and receivables	290	269
Portfolio-based impairment	29	23
Breakdown by counterparty	**319**	**292**
Loans and advances to credit institutions	-	-
Loans and advances to other than credit institutions	319	292

Changes (in EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
Balance as at 01/01/2014	**269**	**22**	**292**
Changes affecting the income statement	20	7	26
Allowances	37	18	55
Reversals	-18	-11	-29
Changes not affecting the income statement	1	0	1
Change in the scope of consolidation	-	-	-
Use of provision	-9	-	-9
Other / Change impact	10	0	10
Balance as at 31/12/2014	**290**	**29**	**319**

Changes (in EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
Balance as at 01/01/2013	**264**	**24**	**288**
Changes affecting the income statement	19	-1	18
Allowances	44	2	46
Reversals	-25	-3	-28
Changes not affecting the income statement	-14	-	-14
Change in the scope of consolidation	1	-	1
Use of provision	-9	-	-9
Other / Change impact	-6	-	-6
Balance as at 31/12/2013	**269**	**22**	**292**

Note 24 – Derivatives

The notional value of the foreign exchange contracts represents the nominal to be delivered.

Held for Trading

(in EUR million)	2014 Fair value Assets	2014 Fair value Liabilities	2014 Notional value	2013 Fair value Assets	2013 Fair value Liabilities	2013 Notional value
Total	**596**	**557**	**42,837**	**795**	**806**	**54,609**
Interest rate	**250**	**248**	**26,741**	**410**	**390**	**35,333**
OTC options	0	0	24	0	0	25
OTC other	248	246	26,013	410	390	35,208
Organized market options	2	2	593	-	-	-
Organized market other	0	0	111	0	0	100
Equity	**81**	**70**	**2,006**	**157**	**127**	**4,425**
OTC options	5	4	93	26	3	217
OTC other	15	5	170	16	9	275
Organized market options	60	60	1,656	58	58	1,678
Organized market other	1	1	87	57	57	2,255
Foreign exchange and gold	**264**	**239**	**14,058**	**228**	**289**	**14,837**
OTC options	2	2	529	10	9	1,151
OTC other	262	236	13,519	218	280	13,680
Organized market options	-	-	-	0	0	6
Organized market other	0	0	10	-	-	-
Commodity	**0**	**0**	**10**	**0**	**0**	**0**
Other	**0**	**0**	**22**	**0**	**0**	**14**

Hedging

(in EUR million)	2014 Fair value Assets	2014 Fair value Liabilities	2014 Notional value	2013 Fair value Assets	2013 Fair value Liabilities	2013 Notional value
Total	**136**	**589**	**7,428**	**180**	**374**	**5,684**
Fair value hedges	**106**	**534**	**6,176**	**150**	**320**	**4,846**
Interest rate	**106**	**504**	**6,024**	**150**	**311**	**4,789**
OTC options	0	-	1	0	-	1
OTC other	106	504	6,023	150	311	4,788
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Foreign exchange and gold	**-**	**30**	**152**	**0**	**9**	**57**
OTC options	-	-	-	-	-	-
OTC other	-	30	152	0	9	57
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Cash flow hedges	**31**	**55**	**1,251**	**30**	**54**	**837**
Interest rate	**31**	**55**	**1,156**	**30**	**54**	**802**
OTC options	-	-	-	-	-	-
OTC other	31	55	1,156	30	54	802
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-
Foreign exchange and gold	**-**	**-**	**96**	**0**	**-**	**35**
OTC options	-	-	-	-	-	-
OTC other	-	-	96	0	-	35
Organized market options	-	-	-	-	-	-
Organized market other	-	-	-	-	-	-

Note 25 – Other assets

The heading 'Other assets' covers various short-term receivables such as dividends and coupons that clients bring to be cashed and the value of which has already been paid, deferred income and prepaid charges.

As at 31 December 2014 and 2013, an amount of EUR 142.6 million of subscribed capital but uncalled and unpaid is also reported under this heading (see Note 34).

Note 26 – Tax assets and liabilities

(in EUR million)	31/12/2014	31/12/2013
Current tax assets	6	3
Deferred tax assets	**244**	**312**
of which:		
Employee benefits	14	12
Losses carried forward	383	435
Tangible and intangible assets	-58	-62
Provisions	-49	-48
Impairment of loans and advances	7	6
Financial instruments at fair value through profit or loss	6	6
Available-for-sale financial assets	-69	-51
Other	9	14
TAX ASSETS	**250**	**315**
Tax losses and tax credits not capitalised [1]	155	154

[1] Tax losses and tax credits not capitalised concern tax losses of Group companies, which are not recognised because of uncertainty about future taxable profits.

(in EUR million)	31/12/2014	31/12/2013
Current tax liabilities	**4**	**3**
Deferred tax liabilities	**11**	**32**
of which:		
Employee benefits	1	1
Losses carried forward	0	-2
Tangible and intangible assets	1	-
Provisions	-1	1
Impairment for losses on loans and advances	1	-
Financial instruments at fair value through profit or loss	0	-
Available-for-sale financial assets	8	13
Other	0	19
TAX LIABILITIES	**14**	**35**

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge/income recognised in the income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes on unimpaired available-for-sale financial assets.

Note 27 – Investments in associates

Associates are companies over which the Precision Capital Group has a significant influence, either directly or indirectly, without having full or joint control.

(in EUR million)	31/12/2014	31/12/2013
Total	38	12
Overview of investments in associates (including goodwill)		
European Fund Administration S.A. and EFA Partners S.A.	12	12
Bourse de Luxembourg	25	-
Europay	1	-
Goodwill in associates		
Gross amount	-	-
Cumulative impairment	-	-

Changes (in EUR million)	**31/12/2014**	**31/12/2013**
Opening balance	12	12
Share of profit for the year	0	-
Dividends paid	-	-
Changes in scope	26	-
Ending balance	38	12

Summary financial information (in EUR thousand)	**Total assets**	**Total liabilities excluding equity**	**Net profit**
31/12/2014			
European Fund Administration S.A.	33,531	9,503	1
EFA Partners S.A.	2,101	11	-14
Bourse de Luxembourg	203,694	103,480	13,407
Europay	12,082	9,560	688
31/12/2013			
European Fund Administration S.A.	36,029	12,003	411
EFA Partners S.A.	2,098	4	-3

The equity method is now applied for the first time for participations in Bourse de Luxembourg and Europay which were previously considered as immaterial. The Group considers that the application of the equity method regarding these companies provided a more adequate information. 2013 financial statements are not restated considering the impact on shareholders' equity is not material. The impact on shareholders' equity amounts to – EUR 9.2 million as at 31 December 2013.

Note 28 – Goodwill and other intangible assets

Changes (in EUR million)	Goodwill arising from a business combination	Purchased portfolio of customers	Softwares developed in-house	Softwares purchased	Other	Total
Balance as at 01/01/2014	**137**	**39**	**47**	**7**	**1**	**231**
Acquisitions	-	-	19	4	0	24
Disposals	-	-	-	0	-	0
Depreciation	-	-	-25	-3	0	-28
Impairment	0	0	-	-	-	0
Allowances	0	0	-	-	-	0
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	-	-	-
Other	-	-	0	2	0	2
Balance as at 31/12/2014	**137**	**38**	**43**	**9**	**1**	**228**
Of which cumulative depreciation and impairment	*0*	*-93*	*-112*	*-39*	*-2*	*-245*
Balance as at 01/01/2013	**137**	**39**	**43**	**8**	**2**	**228**
Acquisitions	-	-	20	3	-	23
Disposals	-	-	-	-	-	-
Depreciation	-	-	-15	-2	-2	-19
Impairment	-	-	-	-	-	-
Allowances	-	-	-	-	-	-
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	-	-	-
Other	-	-	-	-1	1	-
Balance as at 31/12/2013	**137**	**39**	**47**	**7**	**1**	**231**
Of which cumulative depreciation and impairment	-	*-92*	*-93*	*-36*	*-5*	*-228*

Note 29 – Property and equipment and investment properties

(in EUR million)	31/12/2014	31/12/2013
Property and equipment	486	524
Investment properties		
Carrying amount	191	205
Fair value	162	226
Investment properties – Rental income	16	18

Changes (in EUR million)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
Balance as at 01/01/2014	**480**	**13**	**32**	**524**	**205**
Acquisitions	9	9	3	22	0
Disposals	-11	0	-2	-13	-9
Depreciation	-24	-6	-5	-36	-14
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Changes in scope	-	-	-	-	-
Other	-9	-3	0	-11	9
Balance as at 31/12/2014	**445**	**12**	**29**	**486**	**191**
Of which cumulative depreciation and impairment	*-345*	*-49*	*-150*	*-544*	*-92*
Balance as at 01/01/2013	**502**	**12**	**36**	**550**	**218**
Acquisitions	8	7	1	16	-
Disposals	-1	-	-	-2	-1
Depreciation	-24	-6	-5	-35	-14
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Changes in scope	-	-	-	-	-
Other	-5	-	-	-5	1
Balance as at 31/12/2013	**480**	**13**	**32**	**524**	**205**
Of which cumulative depreciation and impairment	*-327*	*-49*	*-151*	*-527*	*-79*

The Esch Belval property was revalued in July 2014 by an independent valuator CBRE Luxembourg. The Group considers that the valuation does not constitue in itself an objective evidence of depreciation as internal indicators are not triggered (value in use). Moreover, due to the cost model treatment, the carrying amount of this asset will run into CBRE fair value in the very short term. In addition, the "fair value" approach is not in accordance with the going concern basis applied by the Group on this kind of investment.

Leasing

1. Group as lessor

A. Finance Lease

(in EUR million)	31/12/2014	31/12/2013
Gross Investment in finance lease:		
Less than 1 year	71	75
More than 1 year and less than 5 years	238	241
SUBTOTAL (A)	309	316
UNEARNED FUTURE FINANCE INCOME ON FINANCE LEASE (B)	-135	-141
NET INVESTMENT IN FINANCE LEASE (A) - (B)	174	175

(in EUR million)	31/12/2014	31/12/2013
Net investment in finance lease may be analysed as follows:		
Less than 1 year	28	23
More than 1 year and less than 5 years	146	152
TOTAL	174	175

(in EUR million)	31/12/2014	31/12/2013
Amount of doubtful on finance lease included in the loan loss provision at the end of the financial year	4	4
Estimated fair value of finance lease	174	175
Accumulated provision for irrecoverable minimum lease payments	3	3

Overview of the significant provisions of leasing contracts (see IFRS 7)

The assets managed by the Group through BIL's subsidiaries (BIL Lease SA and BIL Auto Lease Luxembourg SA) may be broken down as follows:

- 67.7% of the assets is composed of vehicules, mainly passenger cars but also commercial vehicles
- 13.2% is composed of IT equipment
- 18.8% is composed of industrial equipment: machinery, medical equipment, etc
- 0.3% of the assets is composed primarily of office furniture

B. Operating Lease

BIL is the operating lessor of certain land and buildings.

(in EUR million)	31/12/2014	31/12/2013
Future net minimum lease payments under operating lease:		
Less than 1 year	7	7
More than 1 year and less than 5 years	7	13
TOTAL	14	20

No contingent rents were recognised in 2013 and 2014.

2. Group as lessee

A. Finance Lease

The Group is the financial lessee of certain land and buildings.
Given that the total amounts are not material, additional information has not been provided in this note.

B. Operating lease

(in EUR million)	31/12/2014	31/12/2013
Future net minimum lease payments under non-concellable operating lease:		
Less than 1 year	6	5
More than 1 year and less than 5 years	5	6
More than 5 years	1	1
TOTAL	12	12

Lease and sublease payments recognised as an expense during the financial year:		
- minimum lease payments	5	5
TOTAL	5	5

Note 30 – Gross technical provisions, insurance

(in EUR million)	31/12/2014	31/12/2013
Total	163	222
Provision for unearned premiums	-	-
Life insurance provision	163	222
Discretionary participation features	0	0

(in EUR million)	31/12/2014	31/12/2013
Opening balance	**222**	**368**
Net payments received/premiums receivable	0	-
Liabilities paid for surrenders, benefits and claims	-49	-141
(Theoretical) risk premiums deducted	-	-
Credit of interest or change in unit-prices	5	7
Attributed profit sharing	-	-
Other movements	-15	-12
Changes in scope	-	-
Closing balance	**163**	**222**

Note 31 – Provisions

Changes (in EUR million)	Specific impairment for credit commitments	Pending legal disputes	Other provisions	Total
Balance as at 01/01/2014	**1**	**33**	**19**	**53**
Changes affecting the income statement (Note 11)	-1	2	14	**15**
Allowances	0	7	17	**24**
Reversals	-1	-5	-3	**-9**
Changes in scope	-	-	-	-
Other changes	1	-5	8	**4**
Balance as at 31/12/2014	**0**	**31**	**41**	**72**

Changes (in EUR million)	Specific impairment for credit commitments	Pending legal disputes	Other provisions	Total
Balance as at 01/01/2013	**1**	**27**	**9**	**37**
Changes affecting the income statement (Note 11)	1	2	11	**14**
Allowances	1	3	15	**19**
Reversals	-	-1	-4	**-5**
Changes in scope	-	-	-	-
Other changes	-	4	-2	**2**
Balance as at 31/12/2013	**1**	**33**	**19**	**53**

Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Bank acts as sub-participant.

Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.

Other provisions: other provisions than the above-mentioned provisions.

KBL:

For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

The main litigation cases are the following:

BSL litigation

KBL *epb*, with other defendants, was in 2008 summoned by an English company ("BSL") to appear before the Belgian courts. The plaintiff, a former client of KBL *epb*, is claiming an amount of USD 300 million alleging that KBL *epb* (together with the other defendants) participated in the embezzlement of a commission which the plaintiff claims was owed to it by a South African counterpart with whom it was involved in an international commercial transaction between 1986 and 1991. BSL had a bank account at KBL *epb* from 1990 to 1991. BSL alleges that by opening this account the Bank acted in collusion with the counterparty of BSL in order to mislead it. The Brussels Court of First Instance declined jurisdiction in respect of KBL *epb* and ordered the plaintiff to pay an indemnification of EUR 50.000 to KBL *epb* for frivolous and vexatious proceedings. BSL appealed this judgment but the Brussels Court of Appeal confirmed the first instance judgment on 26 September 2014. This decision will become final in March 2015.

Madoff litigation

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was fraudulent. The liquidator therefore launched a claim to recover payments made by BLMIS to these investors (so called "claw-back actions"). As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar proceedings against KBL *epb* and other defendants before the New York Courts and the BVI Courts. The BVI Courts rejected the liquidators' claim against KBL *epb* and other defendants judging that they acted in good faith. The liquidators appealed this judgement of the BVI Court before the High Court in London. The High Court rejected the liquidators' appeal on 16 April 2014. Proceedings before the New York Court are still pending and KBL *epb* as well as the other defendants will now try to dismiss these proceedings.

As in these cases the risks are remote, provisions have only be made for the legal costs.

KBL (Switzerland) tax regularization programs

KBL (Switzerland) has assessed the legal risk and, on the basis of the assumptions made, it has, where appropriate, accounted for provisions for the risk of non-recovery by the paying agents of the up-front payment made within the tax agreement between the Swiss Confederation and the United Kingdom (Rubik) and for the preliminary estimation of the costs related to the participation in the US Program proposed by the US Department of Justice (DoJ).

BIL:

Banque Internationale à Luxembourg SA and Banque Internationale à Luxembourg (Suisse) SA

Following the bankruptcy of Bernard L. Madoff Investment Securities ("BLMIS"), the official receivers of BLMIS and certain investment funds linked to B. Madoff instituted legal proceedings against numerous financial institutions and institutional investors that had purchased Madoff securities and investment products linked to B. Madoff. In accordance with the "clawback principle", they are claiming the return of profits and redemptions obtained on these investments over a period of several years until the discovery of the fraudulent set-up put in place by BLMIS that culminated in its collapse.

Some of these clawback actions were brought against Banque Internationale à Luxembourg SA and its subsidiary Banque Internationale à Luxembourg (Suisse) SA, the plaintiffs claiming the reimbursement of an amount in principal estimated at approximately USD 68 million, most of which corresponds to investments made by Banque Internationale à Luxembourg SA on behalf of third parties.

At this time, Banque Internationale à Luxembourg SA is not able to express a reasonable opinion on the duration or outcome of actions sub judice or on any potential financial impact.

As at December 31, 2014, no provision for clawback actions had been made.

Some clients who invested in products linked to Mr Madoff have also brought legal proceedings against Banque Internationale à Luxembourg SA.

Banque Internationale à Luxembourg Bank Danmark A/S

A Danish bank, EBH BANK, went bankrupt in the turbulent conditions of the 2008 crisis, and people connected with this bank were charged with fraud and market manipulation as part of transactions involving EBH BANK shares and those of other listed companies.

As part of this case, complaints were lodged with the police by the Danish regulator against Banque Internationale à Luxembourg Bank Danmark A/S ("BIL DK") and one of its traders for aiding EBH BANK in allegedly manipulating the market. This trader and, subsequently, BIL DK, were investigated for this alleged aid. The police investigation is still in progress and is likely to result in BIL DK and former its trader being charged.

BIL DK denies any involvement or responsibility in connection with the actions targeted by the investigation. Effective on December 18, 2013, BIL DK transferred its assets and obligations to a newly created branch of BIL in Denmark. BIL DK will however continue to exist until the foregoing investigation is closed or otherwise terminated; BIL DK has been renamed Selskabet af 18 December 2013 A/S.

The Bank is not involved in any other material litigation, where adequate provisions have not been funded, that readers may need to consider in evaluating the risks related to possible credit risks or current or potential litigation.

Note 32 – Other liabilities

The heading 'Other liabilities' in particular covers various items payable in the short term such as coupons and redeemable securities as paying agent.
The net liabilities related to staff pension funds (see Note 33) and restructuring plans are also included in this item.

Note 33 – Retirement benefit obligations

In addition to the legally prescribed plans, entities of the Group maintain various complementary pension plans, of both the defined contribution and defined benefit kind.

The staff of the various entities is covered by means of a number of funded and insured pension plans most of which are defined benefit plans. In order to be able to participate in some of these plans, a minimum period of service is required within the Group and the benefits may also depend on the employees' years of affiliation to the plans as well as on their remuneration in the years before retirement. The annual funding requirements for these various complementary pension plans are determined based on actuarial cost methods.

DEFINED BENEFIT PLANS (in EUR million)	31/12/2014	31/12/2013
Defined benefit plan obligations		
Value of obligations as at 01/01	**481**	**467**
Current service cost	16	17
Interest cost	14	14
Past service cost and losses arising from settlements	-9	-2
Actuarial (gains)/losses		
stemming from changes in demographic assumptions	0	2
stemming from changes in financial assumptions	76	0
experience adjustments	-5	13
Benefits paid	-63	-29
Out of which: amounts paid in respect of settlements	*-30*	-
Plan participant contributions	2	2
Currency adjustment	3	-2
Business combinations and disposals	5	1
Other	-2	-2
Value of obligations as at 31/12	**517**	**481**
Fair value of plan assets		
Fair value of assets as at 01/01	**367**	**358**
Actual return on plan assets		
Interest income	11	11
Return on plan assets (excluding interest income)	35	4
Employer contributions	18	20
Plan participant contributions	2	2
Benefits paid	-48	-25
Out of which: amounts paid in respect of settlements	*-19*	-
Currency adjustment	3	-1
Business combinations and disposals	5	1
Other	-2	-2
Fair value of assets as at 31/12	**390**	**368**

Plan assets do not include any investment in a transferable security issued by the Group (2013: EUR 1.6 million). A property is partially used by the Group for administrative purposes. The fair value of the portion of the property held for own use, as estimated at year-end, is EUR 0.5 million (2013: EUR 0.5 million).

	31/12/2014	31/12/2013
Effect of the asset ceiling		
Effect of the asset ceiling as at 01/01	**-1**	**-1**
Interest on the effect of asset ceiling	0	0
Change in the effect of asset ceiling	0	0
Business combinations and disposals	-	-
Effect of the asset ceiling as at 31/12	**-1**	**-1**

(in EUR million)	31/12/2014	31/12/2013
Funded status		
Plan assets in excess of defined benefit obligations	-127	-114
Unrecognised assets	-1	-1
Unfunded accrued / prepaid pension cost	**-128**	**-115**
Changes in net defined benefit pension liability or asset		
Unfunded accrued / prepaid pension cost as at 01/01	**-115**	**-109**
Net periodic pension cost recognized in the income statement	-9	-17
Remeasurements recognized in OCI (excl. change in tax provision)	-36	-11
Employer contributions	18	20
Pension payments by employer	14	3
Out of which: amounts paid in respect of settlements	*11*	-
Business combinations and disposals	-	-
Currency adjustment	0	0
Unfunded accrued / prepaid pension cost as at 31/12	**-128**	**-115**
Changes in the tax provision relating to current deficits on external plans		
Recognized provision as at 01/01	**-3**	**-4**
Change in the provision recognized through OCI	-1	1
Pension payments by employer	2	-
Gains and losses arising from settlements	1	-
Business combinations and disposals	-	-
Recognized provision as at 31/12	**0**	**-3**
Changes in the remeasurement reserve in equity		
Recognized reserve as at 01/01	**-10**	**-**
Remeasurement recognized in OCI	-37	-10
Other	0	-
Recognized reserve as at 31/12	**-47**	**-10**
AMOUNTS RECOGNIZED IN COMPREHENSIVE INCOME		
Amounts recognised in the income statement		
Current service cost	-16	-17
Net interest on the defined benefit liability/asset	-3	-3
Past service cost	2	2
Gains and losses arising from settlements	8	-
Other	0	0
Net pension cost recognized in the income statement	**-8**	**-17**
Amounts recognized in other comprehensive income		
Actuarial gains/losses on the defined benefit obligation	-71	-15
Actual return on plan assets (excluding amounts included in interest income)	35	4
Change in the effect of the asset ceiling	0	0
Change in the tax provision	-1	1
Currency adjustment	0	0
Total other comprehensive income	**-37**	**-10**
Actual return on plan assets	**12.51%**	**4.09%**

Breakdown of plan assets	100%	100%
Fixed income		
Quoted market price in an active market	66%	67%
Unquoted	-	-
Equities		
Quoted market price in an active market	17%	19%
Unquoted	-	-
Alternatives		
Quoted market price in an active market	4%	4%
Unquoted	-	-
Cash	5%	3%
Real estate	1%	1%
Other	6%	6%

(in EUR million)	31/12/2014	31/12/2013

Significant actuarial assumptions used:

Defined benefit obligation
The rate used to discount the post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with similar maturities than the pension commitments.

Discount rate	1.17% to 3.60%	2.00% to 4.40%
DBO sensitivity to changes in discount rate		
Scenario DR -1%	+73	+58
Scenario DR +1%	-59	-46
Expected rate of salary increase (including inflation)	1.00% to 3.00%	1.00% to 3.00%
Scenario SR -1%	-10	-12
Scenario SR +1%	+15	+17
Maturity profile of the DBO		
Weighted average duration of the DBO (in years)	**16**	**15**
Expected contributions for next year	**16**	**20**

Defined contribution plans (in EUR million)	**31/12/2014**	**31/12/2013**
Amount recorded in the income statement	**-8**	**-6**

Note 34 – Equity attributable to the owners of the parent

As at 31 December 2014 and 2013, the authorized and subscribed capital of Precision Capital amounts to EUR 1,850,031,000, of which EUR 1,707,431,000 paid up (see Note 25), represented by 18,500,310 shares with par value of EUR 100 each.

Note 35 – Result allocation proposal

An interim dividend of EUR 90 million has been distributed as of 23 December 2014.

At its meeting on 3 June 2015, the Board of Directors proposes to allocate the profit for the year ended 31 December 2014, amounting to EUR 120,082,058.61 as follows:

Legal reserve	4,981,409.10
Dividend	90,000,000.00
Retained earnings	25,100,649.51

This result allocation proposal will be submitted to the approval of the Annual General Meeting of Shareholders to be held on 19 June 2015.

Note 36 – Loans commitments, financial guarantees and other commitments

(in EUR million)	31/12/2014	31/12/2013
Confirmed credits, unused	580	2,110
Financial guarantees	905	889
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	2,377	1,550
Total	**3,862**	**4,549**

Note 37 – Related party transactions

As at 31 December 2014, there are no related party transactions with the parent company of Precision Capital, except a loan of EUR 33 million and a debit current account of the ultimate shareholder of EUR 4.5 million.

As at 31 December 2013, there are no related party transactions with the parent company of Precision Capital, except a debit current account of the ultimate shareholder of EUR 4.6 million.

The transactions with the key management personnel of KBL epb are as follows:

WITH KEY MANAGEMENT PERSONNEL In EUR million	31/12/2014		31/12/2013	
	Amount	Number of persons	Amount	Number of persons
Amount of remuneration to key management personnel of KBL *epb* group on the basis of their activity, including the amounts paid to former key management personnel	42	216	36	230
Credit facilities and guarantees granted	8	61	9	60
Loans outstanding	5	42	6	46
Guarantees outstanding	0	9	0	13
Pension commitments	56	46	66	90
Expenses for defined contribution plans	2	115	1	63

The transactions with the key management personnel of BIL are as follows:

(in EUR million)	31/12/2014	31/12/2013
Loans	11	8
Deposits	13	13
Guarantees and commitments given	1	0
Assets entrusted from third parties	11	14

Furthermore, BIL granted emoluments to current members of its administrative and financial bodies and has made contributions in respect of retirements pensions on their behalf as follows:

(in EUR million)	31/12/2014		31/12/2013	
	Remuneration	Retirement pensions	Remuneration	Retirement pensions
Members of the administrative bodies	0.9	-	0.9	-
Members of the managerial bodies	13.2	2.5	10.7	2.6
Total	**14.0**	**2.5**	**11.6**	**2.6**

Note 38 – Solvency

The table below gives the solvency ratios calculated pursuant to CSSF circular 06/273 as amended for 2013 and by EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575) for 2014.

(in EUR million)	31/12/2014	31/12/2013
Regulatory capital	**1,518**	**1,702**
Tier 1 capital	**1,440**	**1,153**
Capital instruments eligible as CET1 Capital	1,707	1,707
Retained earning (including reserves)	59	-122
Accumulated OCI[2]	201	-12
Non-controlling interest[1]	68	93
Intangible assets and purchased goodwill	-91	-94
Goodwill	-137	-137
Deferred tax assets [1]	-278	-277
Adjustments due to prudential filters	11	-
Defined benefit pension fund assets	-2	-
Non significant investments in CET1 of FSE	-3	-
Other transitional adjustments of CET1 capital	-172	-
CET1 capital elements or deductions – other (AGDL reserve)	-12	
Other deductions	-	-5
Additional Tier 1 (Convertible contingent bonds)	89	-
Tier 2 capital	**78**	**597**
Subordinated liabilities	75	-
Positive amounts under expected loss IRB (IRB shortfall)	3	-
Non significant investments in T2 of FSE	0	-
Positive revaluation of AFS shares	-	168
Maximum assimilable subordinated liabilities in Tier 2	-	429
Before limitation		
Subordinated liabilities	-	429
Tier 3 capital	**-**	**11**
Maximum assimilable subordinated liabilities in Tier 3	-	11
Before limitation		
Short Term subordinated liabilities	-	108
Deductions	-	-59
Deductions from Tier 1	-	-30
Deductions from Tier 2	-	-30
Risk weighted assets	**9,177**	**8,251**
Credit risk [2]	7,248	6,568
Market risk	352	195
Credit value adjustment	50	-
Operational risk	1,526	1,488
Solvency ratios		
Common Equity Tier 1 ratio	**14.72%**	**13.61%**
Basic solvency ratio (Tier 1 ratio)	**15.69%**	**13.61%**
Solvency ratio (CAD ratio)	**16.55%**	**20.62%**

(1) At the CSSF request, deferred tax assets are partially deducted from Tier 1 capital

(2) At the CSSF request, the following booking entries relating to IFRS 3 are not included in the regulatory own funds of Precision Capital:

(in EUR million)	Tier 1 capital	
	Capital, share premium, reserves and retained earnings	Minority interests
Tangible assets fair value	183.7	11.2
AFS bonds reserve	19.7	1.3
AFS equity reserve	67.3	6.6
HTM bonds fair value	0.1	0
Insurance provision	-1.5	0
Total impact	**269.3**	**19.1**

Note 39 – Maximum credit risk exposure and collateral received to mitigate the risk

(in EUR million)	31/12/2014	31/12/2013
Assets	**30,119**	**29,584**
Balances with central banks	2,136	2,316
Financial assets	27,325	26,596
Held-for-trading	1,153	1,041
At fair value through profit or loss (excluding "Branche 23")	4	7
Available-for-sale financial assets	9,753	9,445
Loans and receivables	16,116	15,883
Held-to-maturity	164	40
Hedging derivatives	136	180
Tax assets	250	315
Other assets	408	356
Off-balance sheet items	**3,862**	**4,549**
Loans commitments	580	2,110
Financial guarantees	905	889
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	2,377	1,550
Securities Lending	**316**	**1,137**
Maximum credit risk exposure	**34,297**	**35,269**

For the instruments carried at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

Collateral received to mitigate the maximum exposure to credit risk

(in EUR million)	**31/12/2014**	**31/12/2013**
Equity	-	-
Debt instruments	513	1,347
Loans and advances	5,050	4,185
of which measured at fair value	-	-
Derivatives	421	515
Other (including loans commitments given, undrawn amount)	1,195	493
Collateral received to mitigate the maximum exposure to credit risk	**7,179**	**6,540**

The amount and type of collateral required depend on the type of business considered and the Group's assessment of the debtor's credit risk.

The main types of collateral received are as follows:

- Cash;
- Securities (in particular for reverse repo operations and securities lending); and
- Other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Note 40 – Risk management

Risk management is assumed at the level of each of the two sub-group held by Precision Capital, BIL and KBL epb. Therefore, quantitative and qualitative information relating to BIL and KBL epb local risk management are reported separately below. This information is also reported in the respective consolidated annual financial statements of these subsidiaries.

The Pillar III reports are published on the respective internet sites of BIL and KBL epb.

<u>KBL epb</u>

This note aims to disclose the '*nature and risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks*', as required by IFRS 7. The information is presented by risk type as proposed by the standards. In the note below, KBL European Private Bankers Group is mentioned "KBL *epb* group" or the "Group".

1. Credit risk

1.1. Qualitative information

1.1.1. Origin of credit risk

The credit risks arising from financial instruments mainly originate from:

- lending to private clients (mainly Lombard loans and Mortgage loans). Risk in this activity is largely mitigated by a strong collateral policy, implying limited unsecured exposures;
- positions in ALM portfolios;
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.);
- the granting of uncommitted lines to clients of the Global Investor Services (GIS) department in Luxembourg (mainly UCI), to cover temporary overdrafts;
- the acceptance of securities used as collateral in securities lending and repo transactions.

1.1.2. Credit allocation decision making process / governance

In Luxembourg, as in subsidiaries, all lending/investment decisions and decisions to grant uncommitted lines are the responsibility of the Executive Committee or one of the other competent bodies designated under the delegation of authority based on specific criteria. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of conflict of interest.

A credit authority grid within the credit policy defines the limits for credit decisions within each of the subsidiaries of the group. Any credit proposal exceeding the defined limits has to be submitted to the Group Credit Committee for final decision.

As a matter of principle, each new credit proposal submitted to the Group Credit Committee/Executive Committee is accompanied by an opinion issued by Group Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral.

At inception, internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors/group of debtors. Group structures are moreover permanently updated by Group Credit Risk Control.

1.1.3. Credit policy

In the context of the development of credit activity for private banking clients, a revised credit policy was introduced in early 2014 which defines the framework within which loan activities to customers are managed in the KBL *epb* group, validated by the Board Risk Committee[1] ("BRC"). The credit policy is subject to further review/update on an annual basis.

1.1.4. Measurement/monitoring of credit risk

Credit risk related to lending activities, investment portfolios or trading activities has to remain within the general framework set in the Risk Appetite Statement validated by the Board Risk Committee. Therefore, specific indicators are monthly reported to the ALCO and quarterly to the BRC. Special attention is set on concentration risk, being on single issuers, single banking counterparties or countries.
At a regulatory level, KBL *epb* group uses the standardised Basel III methodology to calculate credit risk.

Group Credit Risk Control has its own system for country and concentration limits, approved by the Executive Committee and by the Board Risk Committee. This system allows the definition of limits adapted to the size of the Group and to its risk appetite.

<u>1.1.4.1. Loans</u>

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overdraft or collateral shortfall to be detected and the appropriate corrective actions to be taken swiftly.

On a quarterly basis, a global consolidated reporting of all lending exposures is performed, detailing the portfolio by loan type, customers type, countries, maturities and performing status. It also presents information on the effective loan-to-values for the collateralized exposures.

The files for which a specific monitoring is requested are included in the Watchlist which is discussed monthly in the Group Credit Committee.

<u>1.1.4.2. Investment portfolios</u>

Investments proposals in the portfolios of any entity of KBL *epb* group are submitted by the Group ALM Function. All proposals within the Group have to respect the concentration limits, defined by issuer type (Sovereigns, Corporates and Banks), as well as the concerned country limits. The Group Credit Risk Control department checks the availability under those limits before any investment, may advise against any investment based on its own credit risk assessment, supported by comments provided by the international rating agencies and analysis of the published financial statements.

Group Credit Risk Control automatically monitors debtors' ratings, as reported by rating agencies, and informs the entities concerned accordingly. Various types of standard or specific reports are also drawn up in order to monitor any deterioration in the quality of the portfolio.

Any overdraft of issuer concentration limits, due to rating downgrades, is communicated monthly to the ALCO, and quarterly to the BRC.

<u>1.1.4.3. Interbank transactions</u>

The set-up and monitoring of interbank limits, which are mainly concentrated in the Luxembourg Dealing Room, is a major activity of Group Credit Risk Control. It covers:

- The maintenance of maximum limits, set-up according to principles validated by the BRC in June 2014.

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[1] The Board Risk Committee or BRC is a sub-Committee of the Board of Directors dedicated to risk issues

This system defines interbank limits which are commensurate with the size of the Bank and its risk appetite. It fully integrates the Large Exposures regulation. Loans outstanding are allocated to lines according to a standard "marked-to-market + add on" approach.

The update of maximum limits is triggered by changes in one of the influencing factors (ratings, tier 1 capital...);

- The set-up of operational limits (that can only be smaller than maximum limits) that are necessary to adequately allocate interbank sub-limits across the different products (Money Market, Repo, Securities Lending...) is treated by the different desks.

  The exposures and their compliance with operational limits are monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.4. Collateral monitoring

The management and supervision of collateral received for secured transactions, in addition to contract management, is handled by the Collateral Management entity, having been transferred from Group Risk Control to Operations in early 2014. Specific guidelines validated by the Executive Committee set rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group Credit Risk Control department.

1.1.4.5. Country limits

The framework for the definition and monitoring of country limits covers all types of country risks (in particular that of contagion) and not only the risk of transferability.

Lines are allocated to the Bank and its subsidiaries for credit activities, bonds investments and trading room activities (for Luxembourg) as and when required. As for counterparty risk, the respect of the set country limits is monitored on a daily basis.

1.1.4.6. Concentration monitoring

As mentioned here above, issuer concentration limits are defined per individual or group of counterparts. These limits are assigned to sovereigns, banks and corporates, using a methodology derived from the country limit framework and consider additional financial criteria. Issuer concentration limits are divided into sub-limits which preserve diversification both in terms of maturity and products.

The issuer concentration limits are updated and monitored by Group Credit Risk Control. Exception reports are escalated to the Group ALCO.

1.2. Quantitative information

1.2.1. Breakdown of credit risk exposures

The distribution of the credit risk exposures (available-for-sale (AFS) financial assets and Loans and receivables (L&R)) by products is as follows:

In EUR million AFS 31/12/2014	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/Impaired	Standard	Total	NPL/Impaired	Standard	Total
Bank bonds	-	863.9	**863.9**	-	926.7	**926.7**
Corporate bonds	9.5	1,036.7	**1,046.3**	3.9	1,107.9	**1,111.8**
Asset-backed securities	-	-	**-**	-	-	**-**
Government bonds	-	1,701.9	**1,701.9**	-	1,830.5	**1,830.5**
Sub-total	**9.5**	**3,602.5**	**3,612.0**	**3.9**	**3,865.1**	**3,869.0**
Other (Equity instruments, funds...)						**221.4**
TOTAL						**4,090.5**

In EUR million AFS 31/12/2013	**Amortised cost (before impairment)**			**Fair value (after impairment)**		
	NPL/Impaired	**Standard**	**Total**	**NPL/Impaired**	**Standard**	**Total**
Bank bonds	-	713.7	**713.7**	-	753.7	**753.7**
Corporate bonds	9.2	974.2	**983.4**	3.9	1,031.7	**1,035.6**
Asset-backed securities	-	129.5	**129.5**	-	131.8	**131.8**
Government bonds	-	1,611.1	**1,611.1**	-	1,697.5	**1,697.5**
Sub-total	**9.2**	**3,428.4**	**3,437.7**	**3.9**	**3,614.8**	**3,618.7**
Other (Equity instruments, funds...)						**386.1**
TOTAL						**4,004.8**

In EUR million Loans and receivables	**NPL/Impaired**	**Standard**	**Total**
31/12/2014			
Banks and other financial institutions	-	1,645.5	1,645.5
Customers	22.1	2,370.3	2,392.4
Sub-total	**22.1**	**4,015.8**	**4,037.9**
Other L&R and Intercompanies			11.6
TOTAL			**4,049.5**

In EUR million Loans and receivables 31/12/2013	**NPL/Impaired**	**Standard**	**Total**
Banks and other financial institutions	-	2,630.5	2,630.5
Customers	44.1	1,682.8	1,726.9
Sub-total	**44.1**	**4,313.3**	**4,357.4**
Other L&R and Intercompanies			57.4
TOTAL			**4,414.8**

1.2.2. Specific loan impairment

For the parent company in Luxembourg, which constitutes the largest portion of global exposures, the valuation of potential losses and the adjustment of specific impairments are carried out quarterly by Group Credit Risk Control. The Group Credit Committee decides on any adjustment for the first three quarters of the year, while it is the responsibility of the Executive Committee for the fourth quarter.

Subsidiaries submit their proposals for impairments during the quarterly consolidation.

Below are listed specific impairments established in respect of non performing loans and available-for-sale financial assets (debt instruments) as at 31 December 2013 and 2014:

In EUR million

31/12/2014	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired (1)	TOTAL
AFS gross	-	-	-	-	-	-	9.5	9.5
Impairment	-	-	-	-	-	-	5.6	5.6
AFS net	-	-	-	-	-	-	3.9	3.9
L&R gross	30.8	41.7	0.1	0.0	2.1	42.4	7.7	124.8
Impairment	-	1.3	-	-	0.0	29.4	3.5	34.2
L&R net	30.8	40.5	0.1	0.0	2.1	13.0	4.2	90.6
Total gross	30.8	41.7	0.1	0.0	2.1	42.4	17.2	134.3
Impairment	-	1.3	-	-	0.0	29.4	9.1	39.8
Total net	30.8	40.5	0.1	0.0	2.1	13.0	8.1	94.6

(1) The related assets are impaired but not because of delays in payments.

In EUR million

31/12/2013	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired (1)	TOTAL
AFS gross	-	-	-	-	-	-	9.2	9.2
Impairment	-	-	-	-	-	-	5.4	5.4
AFS net	-	-	-	-	-	-	3.9	3.9
L&R gross	39.3	17.9	7.5	3.6	8.7	38.0	13.7	128.7
Impairment	0.5	2.8	-	-	0.3	30.0	5.2	38.8
L&R net	38.8	15.2	7.5	3.6	8.4	8.0	8.5	89.9
Total gross	39.3	17.9	7.5	3.6	8.7	38.0	22.9	138.0
Impairment	0.5	2.8	-	-	0.3	30.0	10.5	44.2
Total net	38.8	15.2	7.5	3.6	8.4	8.0	12.4	93.8

(1) The related assets are impaired but not because of delays in payments.

In 2014, the Bank proceeded with write-off of impaired exposures with no expectation of recovery of the outstanding balances. The stock of impairment has also been influenced by a write-back of impairment on a defaulted loan where no loss is now expected and a reduced loss expectation on a non-performing exposure following enforced sale of collateral.

The loan/loss ratio is as follows:

Loan/Loss ratio (*)	2014	2013
L&R from customers	0 bps	13 bps
AFS financial assets	0 bps	5 bps

(*) The loan/loss ratio is defined as the net variation of specific and general impairments on the average loan portfolio over the year.

1.2.3. Concentration of risks

1.2.3.1. By rating[(1)]

In EUR million

Rating 31/12/2014	AFS			L&R-Banks and other financial institutions			
	NPL / Impaired	*Standard*	*Total*	*Other L&R*	*Reverse Repo*	*Commercial Paper*	*Total*
AAA	-	880.1	880.1	0.5	-	-	0.5
AA+	-	152.2	152.2	10.4	-	-	10.4
AA	-	716.4	716.4	78.4	-	-	78.4
AA-	-	239.0	239.0	51.9	-	-	51.9
A+	1.6	234.8	236.4	65.1	-	-	65.1
A	0.8	393.3	394.1	161.4	331.7	-	493.1
A-	-	459.6	459.6	17.3	-	-	17.3
BBB+	-	249.4	249.4	21.7	0.1	-	21.8
BBB	1.6	456.1	457.6	1.2	814.9	-	816.0
BBB-	-	53.7	53.7	-	-	-	-
BB+	-	2.8	2.8	0.3	-	-	0.3
BB	-	9.2	9.2	-	-	-	-
BB-	-	-	-	0.8	-	-	0.8
B+	-	-	-	-	-	-	-
B	-	-	-	-		-	-
B-	-	-	-	0.3	-	-	0.3
CCC	-	-	-	-	-	-	-
Not rated	0.0	18.5	18.5	89.5	0.0	-	89.5
Total	**3.9**	**3,865.1**	**3,869.0**	**498.8**	**1,146.7**	**-**	**1,645.4**

In EUR million

Rating 31/12/2013	AFS			L&R-Banks and other financial institutions			
	NPL / Impaired	*Standard*	*Total*	*Other L&R*	*Reverse Repo*	*Commercial Paper*	*Total*
AAA	-	1,127.2	1,127.2	1.5	-	-	1.5
AA+	-	543.2	543.2	0.3	-	-	0.3
AA	-	372.2	372.2	68.5	-	-	68.5
AA-	-	88.3	88.3	32.6	-	-	32.6
A+	-	116.0	116.0	81.4	17.1	-	98.5
A	2.3	274.8	277.1	221.8	257.8	-	479.6
A-	-	338.2	338.2	79.2	337.1	-	416.2
BBB+	-	246.8	246.8	20.7	-	-	20.7
BBB	1.6	347.8	349.4	54.6	951.8	-	1,006.4
BBB-	-	84.2	84.2	0.0	247.4	-	247.4
BB+	-	15.7	15.7	-	-	-	-
BB	-	8.6	8.6	0.3	-	-	0.3
BB-	-	-	-	0.6	-	-	0.6
B+	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
B-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
Not rated	0.0	51.8	51.8	107.9	150.0	-	257.9
Total	**3.9**	**3,614.8**	**3,618.7**	**669.3**	**1,961.2**	**-**	**2,630.5**

(1) The information on rating is not available as such for Loans and receivables to customers.

1.2.3.2. Government bonds by country

In EUR million		Available-for-sale financial assets (without accrued interest)					Held-for-trading assets	
31/12/2014		Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria		**110.5**	**125.8**	**9.0**	-	-	-	-
	Maturing in 2015	1.0	1.0	0.0	-	-	-	-
	Maturing in 2016 or 2017	27.0	29.3	1.7	-	-	-	-
	Maturing in 2018 or 2019	55.5	62.9	4.5	-	-	-	-
	Maturing in 2020 and later	27.0	32.5	2.8	-	-	-	-
Belgium		**196.0**	**211.0**	**5.7**	-	**-2.5**	**0.2**	**0.2**
	Maturing in 2015	52.9	53.8	0.4	-	-	-	-
	Maturing in 2016 or 2017	110.4	119.6	2.4	-	-2.5	-	-
	Maturing in 2018 or 2019	26.0	29.5	2.1	-	-	-	-
	Maturing in 2020 and later	6.8	8.1	0.8	-	-	0.2	0.2
Canada		**69.4**	**76.4**	**1.3**	-	**-4.4**	-	-
	Maturing in 2018 or 2019	8.0	8.6	0.1	-	-	-	-
	Maturing in 2020 and later	61.4	67.8	1.2	-	-4.4	-	-
Czech republic		**28.0**	**33.4**	**0.7**	-	**-3.7**	-	-
	Maturing in 2018 or 2019	5.0	5.8	0.2	-	-	-	-
	Maturing in 2020 and later	23.0	27.6	0.5	-	-3.7	-	-
France		**158.4**	**171.2**	**6.4**	-	-	**0.0**	**0.0**
	Maturing in 2015	57.6	58.1	0.4	-	-	-	-
	Maturing in 2016 or 2017	49.0	53.0	2.1	-	-	-	-
	Maturing in 2018 or 2019	38.0	43.7	2.6	-	-	0.0	0.0
	Maturing in 2020 and later	13.8	16.4	1.4	-	-	0.0	0.0
Germany		**89.7**	**95.4**	**3.5**	-	-	**0.0**	**0.0**
	Maturing in 2015	32.0	32.5	0.1	-	-	-	-
	Maturing in 2016 or 2017	45.6	48.9	1.9	-	-	-	-
	Maturing in 2018 or 2019	2.1	2.3	0.1	-	-	-	-
	Maturing in 2020 and later	10.0	11.8	1.4	-	-	0.0	0.0
Ireland		**68.5**	**75.9**	**5.7**	-	-	**0.0**	**0.0**
	Maturing in 2015	15.0	15.1	0.0	-	-	-	-
	Maturing in 2016 or 2017	20.0	22.0	1.2	-	-	-	-
	Maturing in 2018 or 2019	31.4	36.3	4.1	-	-	-	-
	Maturing in 2020 and later	2.1	2.5	0.5	-	-	0.0	0.0
Italy		**156.2**	**163.6**	**6.1**	-	-	**175.0**	**177.5**
	Maturing in 2015	80.8	81.3	0.6	-	-	175.0	177.5
	Maturing in 2016 or 2017	38.6	41.1	2.7	-	-	-	-
	Maturing in 2018 or 2019	36.8	41.1	2.8	-	-	-	-
Luxembourg		**54.2**	**63.2**	**1.0**	-	**-7.5**	**0.1**	**0.1**
	Maturing in 2020 and later	54.2	63.2	1.0	-	-7.5	0.1	0.1
The Netherlands		**112.3**	**121.3**	**5.1**	-	**-1.6**	**0.0**	**0.0**
	Maturing in 2015	33.0	33.3	0.3	-	-	-	-
	Maturing in 2016 or 2017	32.0	35.0	1.5	-	-	-	-
	Maturing in 2018 or 2019	22.1	24.5	1.6	-	-	-	-
	Maturing in 2020 and later	25.2	28.5	1.8	-	-1.6	0.0	0.0
Qatar		**37.1**	**42.1**	**-0.1**	-	**-3.7**	-	-
	Maturing in 2018 or 2019	12.8	15.1	0.1	-	-1.4	-	-
	Maturing in 2020 and later	24.3	27.0	-0.2	-	-2.3	-	-
Poland		**54.7**	**62.2**	**0.3**	-	**-5.8**	-	-
	Maturing in 2016 or 2017	14.1	14.6	0.1	-	-	-	-
	Maturing in 2018 or 2019	40.6	47.6	0.2	-	-5.8	-	-

Slovakia	**47.1**	**52.4**	**1.1**	**-**	**-3.2**	**-**	**-**
Maturing in 2015	6.3	6.3	0.0	-	-	-	-
Maturing in 2016 or 2017	16.6	17.5	0.2	-	-0.2	-	-
Maturing in 2020 and later	24.2	28.6	0.9	-	-3.0	-	-
Spain	**54.3**	**54.9**	**0.0**	**-**	**-0.7**	**110.2**	**111.3**
Maturing in 2015	42.0	41.9	0.0	-	-	110.0	111.1
Maturing in 2016 or 2017	12.3	12.9	-0.0	-	-0.7	-	-
Maturing in 2018 or 2019	-	-	-	-	-	0.2	0.2
Supranational	**275.3**	**292.0**	**10.7**	**-**	**-4.1**	**1.8**	**1.9**
Maturing in 2015	53.5	54.0	0.2	-	-	-	-
Maturing in 2016 or 2017	133.3	140.0	5.0	-	-0.9	1.1	1.1
Maturing in 2018 or 2019	58.6	65.0	2.7	-	-3.2	0.2	0.2
Maturing in 2020 and later	29.9	33.0	2.8	-	-	0.6	0.6
Rest	**145.1**	**160.0**	**2.3**	**-**	**-2.6**	**35.0**	**35.0**
Maturing in 2015	11.3	11.7	0.0	-	-	35.0	35.0
Maturing in 2016 or 2017	44.0	45.5	0.3	-	-	-	-
Maturing in 2018 or 2019	33.6	38.0	0.5	-	-1.3	-	-
Maturing in 2020 and later	56.2	64.8	1.5	-	-1.4	0.0	0.0
Total	**1,656.5**	**1,800.5**	**58.7**	**-**	**-40.0**	**322.4**	**326.1**

In EUR million	Available-for-sale financial assets (without accrued interest)					Held-for-trading assets	
31/12/2013	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	**105.5**	**118.2**	**5.8**	**-**	**-**	**-**	**-**
Maturing in 2014	4.1	4.2	0.0	-	-	-	-
Maturing in 2015 or 2016	1.0	1.0	0.0	-	-	-	-
Maturing in 2017 or 2018	62.2	70.2	4.6	-	-	-	-
Maturing in 2019 and later	38.2	42.8	1.3	-	-	-	-
Belgium	**269.0**	**286.2**	**4.3**	**-**	**-3.4**	**-**	**-**
Maturing in 2014	87.8	89.2	0.5	-	-	-	-
Maturing in 2015 or 2016	122.3	130.4	1.7	-	-3.4	-	-
Maturing in 2017 or 2018	34.2	39.7	1.3	-	-	-	-
Maturing in 2019 and later	24.7	26.8	0.8	-	-	-	-
Czech republic	**8.0**	**9.3**	**0.1**	**-**	**-**	**0.0**	**0.0**
Maturing in 2017 or 2018	5.0	5.8	0.1	-	-	-	-
Maturing in 2019 and later	3.0	3.4	0.0	-	-	0.0	0.0
Finland	**2.0**	**2.2**	**0.0**	**-**	**-**	**0.0**	**0.0**
Maturing in 2019 and later	2.0	2.2	0.0	-	-	0.0	0.0
France	**158.6**	**169.5**	**4.8**	**-**	**-**	**-**	**-**
Maturing in 2014	29.8	30.6	0.2	-	-	-	-
Maturing in 2015 or 2016	60.9	63.1	1.1	-	-	-	-
Maturing in 2017 or 2018	53.0	59.3	3.1	-	-	-	-
Maturing in 2019 and later	14.9	16.5	0.4	-	-	-	-
Germany	**126.7**	**133.1**	**3.3**	**-**	**-**	**-**	**-**
Maturing in 2014	47.0	47.0	0.0	-	-	-	-
Maturing in 2015 or 2016	42.2	44.3	1.0	-	-	-	-
Maturing in 2017 or 2018	27.7	31.0	1.8	-	-	-	-
Maturing in 2019 and later	9.7	10.9	0.5	-	-	-	-
Ireland	**77.6**	**83.9**	**3.6**	**-**	**-**	**0.0**	**0.0**
Maturing in 2014	9.1	9.1	-	-	-	-	-
Maturing in 2015 or 2016	25.0	26.5	0.5	-	-	-	-
Maturing in 2017 or 2018	41.4	46.0	2.8	-	-	-	-
Maturing in 2019 and later	2.1	2.3	0.3	-	-	0.0	0.0

Italy	**128.4**	**134.3**	**5.1**	-	-	-	-
Maturing in 2014	25.3	25.4	0.3	-	-	-	-
Maturing in 2015 or 2016	49.2	51.3	2.4	-	-	-	-
Maturing in 2017 or 2018	54.0	57.5	2.4	-	-	-	-
Luxembourg	**54.2**	**60.2**	**0.4**	-	**-5.1**	**0.4**	**0.4**
Maturing in 2019 and later	54.2	60.2	0.4	-	-5.1	0.4	0.4
The Netherlands	**103.2**	**108.5**	**4.0**	-	**0.7**	**0.0**	**0.0**
Maturing in 2014	9.2	9.4	0.0	-	-	-	-
Maturing in 2015 or 2016	35.4	36.8	1.2	-	-	-	-
Maturing in 2017 or 2018	26.7	30.2	1.8	-	-	-	-
Maturing in 2019 and later	32.0	32.2	1.0	-	0.7	-	-
Norway	-	-	-	-	-	**0.1**	**0.1**
Maturing in 2015 or 2016	-	-	-	-	-	0.1	0.1
Poland	**29.4**	**33.1**	**0.1**	-	**-1.8**	-	-
Maturing in 2015 or 2016	14.1	15.0	0.1	-	-	-	-
Maturing in 2017 or 2018	10.9	13.0	0.2	-	-1.8	-	-
Maturing in 2019 and later	4.4	5.1	-0.2	-	-	-	-
Slovakia	**42.7**	**45.7**	**0.2**	-	**-1.4**	-	-
Maturing in 2014	8.0	8.0	0.0	-	-	-	-
Maturing in 2015 or 2016	16.8	17.7	0.2	-	-0.2	-	-
Maturing in 2017 or 2018	2.7	3.0	0.0	-	-	-	-
Maturing in 2019 and later	15.2	17.0	0.0	-	-1.1	-	-
Spain	-	-	-	-	-	**0.1**	**0.1**
Maturing in 2017 or 2018	-	-	-	-	-	0.1	0.1
Sweden	**23.3**	**23.6**	**0.2**	-	-	-	-
Maturing in 2014	23.3	23.6	0.2	-	-	-	-
Supranational	**274.9**	**288.2**	**6.8**	-	**-3.9**	**1.8**	**1.9**
Maturing in 2014	16.6	16.8	0.1	-	-	-	-
Maturing in 2015 or 2016	146.0	152.8	5.5	-	-	0.1	0.1
Maturing in 2017 or 2018	56.3	58.5	0.4	-	-1.3	1.4	1.5
Maturing in 2019 and later	56.0	60.2	0.8	-	-2.6	0.3	0.3
Rest	**158.5**	**171.7**	**0.9**	-	**-2.2**	**1.3**	**1.2**
Maturing in 2014	15.5	15.6	0.1	-	-	0.1	0.1
Maturing in 2015 or 2016	52.3	55.1	0.2	-	-	0.8	0.7
Maturing in 2019 and later	90.8	101.0	0.6	-	-2.2	0.5	0.4
Total	**1,562.1**	**1,667.7**	**39.5**	-	**-17.0**	**3.7**	**3.7**

1.2.3.3. Country Risk Management

The breakdown of Available-for-sale financial assets and Loans and receivables per countries is as follows:

In EUR million	AFS			L&R-Banks and other financial institutions				L&R-Customers
Country 31/12/2014	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Commercial Paper	Total	Total
France	1.6	510.1	511.6	54.3	331.6	-	386.0	317.7
Spain	-	115.3	115.3	2.7	763.2	-	766.0	124.5
Supranational	-	693.6	693.6	-	-	-	-	-
Germany	-	248.2	248.2	50.6	-	-	50.6	318.1 [1]
Belgium	-	255.5	255.5	65.6	-	-	65.6	265.7
The Netherlands	-	295.6	295.6	15.9	0.1	-	16.0	265.2
United Kingdom	-	208.5	208.5	27.0	-	-	27.0	186.7
Luxembourg	-	66.1	66.1	93.5	0.0	-	93.6	373.1
Italy	-	206.7	206.7	0.4	51.7	-	52.1	4.7
United States of America	2.4	123.1	125.4	78.9	-	-	78.9	6.4
Austria	-	141.7	141.7	0.6	-	-	0.6	0.0
Switzerland	0.0	45.7	45.7	44.4	-	-	44.4	60.0
Cayman Islands	-	-	-	-	-	-	-	130.0
Guernsey	-	-	-	-	-	-	-	126.1
United Arab Emirates	-	89.9	89.9	-	-	-	-	1.8
Ireland	-	77.3	77.3	8.9	-	-	8.9	0.0
Qatar	-	84.7	84.7	-	-	-	-	-
Canada	-	82.0	82.0	1.5	-	-	1.5	0.3
Poland	-	66.9	66.9	1.0	-	-	1.0	1.4
British Virgin Islands	-	-	-	-	-	-	-	65.3
Sweden	-	63.1	63.1	0.6	-	-	0.6	0.3
Monaco	-	-	-	1.1	-	-	1.1	61.0
Czech Republic	-	47.5	47.5	12.8	-	-	12.8	0.6
South Korea	-	56.9	56.9	0.0	-	-	0.0	-
Finland	-	54.3	54.3	0.2	-	-	0.2	-
Slovakia	-	53.9	53.9	0.2	-	-	0.2	0.0
Denmark	-	38.4	38.4	8.3	-	-	8.3	3.8
Hong Kong	-	28.7	28.7	11.1	-	-	11.1	0.0
Norway	-	38.9	38.9	0.0	-	-	0.0	0.3
Japan	-	37.7	37.7	1.3	-	-	1.3	0.0
Seychelles	-	-	-	-	-	-	-	32.6
Mexico	-	25.8	25.8	0.2	-	-	0.2	-
Brazil	-	24.1	24.1	-	-	-	-	0.4
Slovenia	-	15.9	15.9	-	-	-	-	-
Lithuania	-	13.3	13.3	-	-	-	-	0.0
Other below EUR 10 million	-	56.1	56.1	17.8	-	-	17.8	46.5
Total	**3.9**	**3,865.1**	**3,869.0**	**498.8**	**1,146.7**	-	**1,645.4**	**2,392.4**

[1] Out of which reverse repos: EUR 200 million

In EUR million	AFS			L&R-Banks and other financial institutions				L&R-Customers
Country 31/12/2013	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Commercial Paper	Total	Total
United Kingdom	-	179.6	179.6	93.0	486.4	-	579.4	175.5
France	1.6	486.0	487.5	44.5	125.5	-	170.1	267.0
Spain	-	60.5	60.5	1.7	688.2	-	689.9	111.1
Italy	-	198.6	198.6	49.6	511.1	-	560.6	6.0
Supranational	-	740.6	740.6	-	-	-	-	-
Belgium	-	419.6	419.6	51.6	-	-	51.6	231.3
Germany	-	296.3	296.3	62.0	150.0	-	212.0	127.3
The Netherlands	-	280.7	280.7	25.6	-	-	25.6	293.5
Luxembourg	-	70.6	70.6	87.4	-	-	87.4	282.7
United States of America	2.3	133.6	135.9	43.9	-	-	43.9	6.2
Austria	-	151.2	151.2	0.9	-	-	0.9	-
Switzerland	-	58.9	58.9	42.4	-	-	42.4	39.8
Ireland	-	86.5	86.5	5.9	-	-	5.9	-
Sweden	-	75.0	75.0	0.4	-	-	0.4	0.2
British Virgin Islands	-	-	-	-	-	-	-	63.3
China	-	2.3	2.3	52.2	-	-	52.2	0.4
Japan	-	3.5	3.5	50.8	-	-	50.8	-
Slovakia	-	47.1	47.1	0.2	-	-	0.2	0.2
Monaco	-	-	-	-	-	-	-	46.1
Poland	-	37.2	37.2	1.6	-	-	1.6	1.1
Finland	-	21.9	21.9	14.1	-	-	14.1	0.0
Czech Republic	-	21.0	21.0	11.4	-	-	11.4	0.0
Russia	-	30.9	30.9	0.4	-	-	0.4	0.4
Denmark	-	25.3	25.3	4.4	-	-	4.4	0.1
Qatar	-	27.8	27.8	0.3	-	-	0.3	-
Canada	-	24.9	24.9	2.5	-	-	2.5	0.3
Hong Kong	-	22.7	22.7	0.7	-	-	0.7	1.4
United Arab Emirates	-	20.3	20.3	0.2	-	-	0.2	0.1
Brazil	-	12.8	12.8	2.3	-	-	2.3	0.4
Norway	-	13.3	13.3	0.6	-	-	0.6	0.1
New Zealand	-	7.6	7.6	2.8	-	-	2.8	0.3
Australia	-	8.8	8.8	1.4	-	-	1.4	0.0
Cayman Islands	-	-	-	0.0	-	-	0.0	10.0
Other below EUR 10 million	-	49.7	49.7	14.7	0.0	0.0	14.7	61.9
Total	**3.9**	**3,614.8**	**3,618.7**	**669.3**	**1,961.2**	**0.0**	**2,630.5**	**1,726.9**

2. Market Risk: Trading Risk

2.1. Qualitative information

2.1.1. Origin of trading risk

KBL *epb* group being mainly Private Banking oriented, its trading activity aims to support the core business activities. The trading positions reflect the necessary intermediation of the Head Office's Dealing Room, supporting client flows of the Group in terms of debt instruments, equity instruments, structured products, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla.

2.1.2. Trading risk policy

The risks incurred therefore are mainly short-term interest rate risk (treasury in the currencies of clients), medium/long-term interest rate risk (bond trading, particularly in EUR), price volatility risk (trading in listed equities and structured products sold to private clients) and forex risk (spot and forward exchange rates in the liquid currency pairs used by clients). Forex risk is the only trading activity for which subsidiaries are allowed to carry some residual positions relating to their customers' flows.

2.1.3. Trading decision making process / governance

Trading activities are concentrated in Luxembourg. According to the Risk Appetite Statement, the primary limits are granted by the Board Risk Committee to the Executive Committee of KBL *epb* group, which is responsible for the overruns validation. Trading exposures compared to their respective primary limits are communicated on a quarterly basis to the Board Risk Committee.

2.1.4. Measurement and monitoring of trading risk

The system of primary limits in place at KBL *epb* is based on:

- Nominal amounts for the activities subject to currency risk (Forex) and to price volatility risk (Equity, Third Party Funds, Structured Products, Special Bonds);
- 10 bpv limits for activities subject to interest rate risk (Treasury and Bond Desks).

These primary limits are supplemented by a structure of secondary limits allowing a more detailed analysis of the trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer, based on their rating or on their market liquidity.

In February 2014, the Board Risk Committee approved the reallocation of Global Markets limits – monitored at the Executive Committee level – in order to better meet existing business requirements.

The resulting reallocation did not affect the overall trading risk level, but better focused on the Bank's core clientele activity. It consisted in:

- Reducing the "Bond Special" trading limits (i.e. Mainly constant maturity swap and steepener notes);
- Reducing the "Third Party Funds" and "Equity" trading limits (both activities being merged in a "Lux Stock Exchange Desk" reflecting the new focus on limited arbitrage on Luxembourg Stock Exchange);
- Increasing "Structured Product" trading limits, confirming the key role of this business in serving the network and the UHNWI clients.

In June 2014, Global Markets also strongly decreased its IRS trading activity in order to better fit the existing core business.

Finally, a Historical Value at Risk measure has been developed in 2014 on Luxembourg trading positions (residual Fx positions in the subsidiaries being considered as not material), in order to complete the limits framework.

2.1.5. Concentration Risk

Concentration risk by issuer is strictly governed by conservative limits restricting the trading in non-investment grade debts and in illiquid equities, which leads to a well diversified trading portfolio.

As at 31 December 2014, the trading activity was diversified on 105 Corporate and Financial issuers with an average outstanding of +/- EUR 0.76 million, and a maximum exposure of EUR 6.64 million on BNP Paribas.
The evolution of exposures related to each activity compared with their respective limits (primary and secondary), as well as the economic results and highlights, are reported daily to the Heads of the Dealing Room and of the Group Risk Control Function. They are also weekly reported to the KBL *epb* group Executive Committee, on a monthly basis to the ALCO and on a quarterly basis to the Group Board Risk Committee.

2.2. Quantitative information

As at 31 December 2014 and 2013, the usage of limits in the Trading activities is as follows (KBL *epb* group):

In EUR million	Limit in 10 bpv *(1)*	Oustanding 31/12/2013	Maximum observed in 2014	Average observed in 2014	Oustanding 31/12/2014
Treasury	2.5	0.7	1.1	0.6	0.5
Bond	0.8	0.0	0.4	0.2	0.2

(1) BPV 10 bps oustanding corresponds to the sum in abs value of the BPV 10 bps in each currency

In EUR million	Limit in Nominal Amount *(3)*	Oustanding 31/12/2013	Maximum observed in 2014	Average observed in 2014	Oustanding 31/12/2014
Forex (bullions included)	23.0	4.2	23.4	5.8	4.9
Lux Stock Exch *(2)*	3.0	0.5	0.9	0.2	0.1
Bond Special	3.0	1.9	3.6	1.4	1.0
Structured Product	110.0	51.4	71.3	56.6	44.7

(2) Luxembourg Stock Exchange encompasses the former "Equity "and "Third Party Funds"
(3) Limits after reallocation approved by BRC in February 2014

Outstanding in each activity remained well below the authorised limits over the year 2014, except for 2 occasional cases:

- A one day overrun in the Forex activity (11 November 2014);
- A one day overrun in the Bond Special activity (3 July 2014), due to a care order executed for a private client.

The HVaR observed over the year 2014 amounted to EUR 2.68 million (average) and to EUR 1.49 million as at end of year 2014.

3. Market Risk: ALM Risk

3.1. Qualitative information

3.1.1. Origin of ALM risks

The traditional activity of a private bank entails little ALM risk[2] compared to a retail bank: most of the client assets are reported as an off-balance sheet item in the form of security deposits. Most short-term client cash deposits offer variable rates linked with money market rates and the same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

As a consequence, ALM risks are mainly entailed by security portfolios set up within the frame of the ALM policy being:

- Portfolio of high grade bonds dedicated to the reinvestment of the free capital, and of the most stable part of fixed rate sight deposits and savings accounts;
- Portfolios dedicated to the reinvestment of other stable liquidities, looking for the right balance between interest rate risk and credit spread risk.

The ALM equity risk is induced by an investment portfolio invested in direct lines of equities or in UCI shares. The portfolio held in KBL *epb* (Luxembourg) is managed along Group ALCO's guidelines. Some equities portfolios exist in the subsidiaries, in order to meet specific needs (reinvestment of "branch 21" liabilities in the insurance company Vitis Life, pension obligations in Merck Finck & Co a.o.). Transactions in these portfolios are performed after validation of the local management and of Group ALM.

KBL *epb* group is not exposed to any ALM forex risk as no active foreign exchange exposure is taken (assets are funded in their respective currencies).

3.1.2. ALM decision making process/governance

The ultimate responsibility for the ALM activity of KBL *epb* group is held by the monthly Group ALCO Committee, which is an Executive Committee extended to the representatives of the Group ALM Function, of the Group Risk Control Function, of Global Markets, of Finance, in addition to the Chief Investment Officer.

The ALCO validates a.o. strategies in terms of management of the gap between resources and utilisations, in terms of Return on Equity enhancement, management of the structural liquidity and mitigation of the related risks.

Those strategies are proposed by the Group ALM Function which has the responsibility for the preparation of the ALCO meetings, a.o for the topics which are submitted to its decisions. The Function is also in charge of the day-to-day implementation of the ALCO decisions. When they have a Group dimension, it has to ensure their implementation within the limits of the governance constraints in place.

Under this structure, the Group Risk Control Function endorses a role of second level control entity, issuing opinions on the proposals and monitoring the risks related to the ALM activity on a recurring basis.

[2] The ALM risk is defined as the market risks induced by the balance sheet, except the trading activity.

3.1.3. ALM policy

A document entitled *'Investment Policy and ALM framework'* describes a.o. the ALM objectives, governance and constraints (credit risk, liquidity, ...). It is in line with the Risk Appetite Statement expressed by the Board of Directors (see below).

3.1.4. Measurement and monitoring of ALM risks

The Risk Appetite Statement, at least reviewed on a yearly basis, expresses the Board of Directors' risk appetite for ALM interest rate risk, credit spread risk and equity risk, mainly through limits on Value at Risk indicators, sensitivity measures and global outstanding at KBL *epb* group level.

Regarding the interest rate risk:

- One limit is based on the regulatory 200 bpv (basis point value) limit for all banking book positions of KBL epb group. While the regulatory limit amounts to 20% of own funds, the BRC limit has been fixed at 18%; the 200 bpv sensitivity equals 11.4% of own funds as at 31 December 2014 (31 December 2013: 12.3 %);
- The other limit is expressed via an Interest Rate Value at Risk 99% - 1 year, which amounts to EUR 45 million for a Risk Appetite limit of EUR 150 million as at 31 December 2014 (31 December 2013: EUR 81 million) for KBL epb group.

Regarding the equity (price) risk, the Risk Appetite is expressed in terms of maximum Value at Risk, stop losses and maximum size for listed equities and for alternative equity investments for the whole Group.

The Equity Value at Risk 99% - 1 year amounts to EUR 67 million as at 31 December 2014 (EUR 131 million as at 31 December 2013) for a Risk Appetite limit of EUR 150 million for KBL *epb* group.

3.2. Quantitative information

3.2.1. Interest rate

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows for KBL *epb* group:

In EUR million 100 bpv as at 31/12/2014	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	**-5**	**-4**	**-30**	**-28**	**-51**	**-118**	**10,868**
Held-for-trading	-0	-0	-	-	-	**-0**	759
Designated at fair value through profit or loss	-0	-	-	-	-	**-0**	1,947
Available-for-sale financial assets	-0	-3	-25	-23	-41	**-92**	4,090
Loans and receivables	-2	-1	-1	-4	-10	**-19**	4,049
Hedging derivatives	-2	-0	-4	-0	-	**-6**	23

Financial liabilities	4	3	18	18	36	82	10,915
Held-for-trading	0	0	1	4	2	7	271
Designated at fair value through profit or loss	-	-	-	-	-	-	1,943
Measured at amortised cost (excluding deposits from CB)	3	2	6	4	6	21	8,305
Subordinated liabilities	0	0	2	0	0	3	231
Hedging derivatives	0	1	9	10	29	49	165
Other liabilities (Vitis Life Br 21)	0	0	1	1	1	3	
Gap	-1	-2	-11	-10	-15	-35	

In EUR million 100 bpv as at 31/12/2013	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	**-4**	**-6**	**-32**	**-33**	**-42**	**-117**	**10,708**
Held-for-trading	-0	-2	-	-	-	-2	390
Designated at fair value through profit or loss	-0	-	-0	-	-	-0	1,863
Available-for-sale financial assets	-0	-3	-25	-29	-35	-92	4,005
Loans and receivables	-2	-1	-2	-5	-7	-17	4,415
Hedging derivatives	-1	-0	-5	-	-	-6	34
Financial liabilities	**4**	**5**	**18**	**17**	**24**	**73**	**10,820**
Held-for-trading	0	2	2	3	2	9	309
Designated at fair value through profit or loss	-	-	-	-	-	-	1,856
Measured at amortised cost (excluding deposits from CB)	3	3	6	5	5	22	8,315
Subordinated liabilities	0	0	5	0	0	5	245
Hedging derivatives	0	0	5	9	16	31	95
Other liabilities (Vitis Life Br21)	0	0	2	1	2	5	
Gap	**-0**	**-1**	**-14**	**-16**	**-18**	**-45**	

The sensitivity of the balance sheet has decreased since end of 2013 mainly due to the forward sale 12 months performed in September 2014: EUR 399 million (nominal amount) of KBL *epb* ALM bond positions have been sold, aiming to secure potential gains included in the AFS bond reserve (impact of EUR – 13.4 million on the 100 bpv sensitivity).

The sensitivity of the interest margin of KBL *epb* group to the interest rates (impact of a parallel increase by 1 % of the interest rate risk curve) is as follows:

In EUR million Sensitivity 100 bpv Shift 31/12/2014	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total Impact
Financial assets	-4.0	-4.8	-17.4	-8.3	-7.5	**-42.0**
Financial liabilities	4.0	3.2	11.5	4.7	5.6	**29.0**
Net Impact	**0.0**	**-1.6**	**-5.9**	**-3.5**	**-2.0**	**-13.0**

In EUR million Sensitivity 100 bpv Shift 31/12/2013	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-4.2	-6.0	-15.6	-8.5	-6.3	**-40.5**
Financial liabilities	3.8	5.6	9.7	4.7	4.0	**27.6**
Net impact	**-0.4**	**-0.4**	**-5.9**	**-3.8**	**-2.4**	**-12.9**

3.2.2. Equity Risk

3.2.2.1. Sensitivity of equity risk

Regarding the equity risk, the impact of a decrease of 25 % on both the income statement (impairment) and the equity AFS revaluation reserve (excluding Equity instruments at cost) is as follows for KBL *epb* group:

In EUR thousand

31/12/2014	Current situation (1)	*Impact of a markets' decrease of 25%*	Stock after decrease
Marked-to-Market value	221,264	*-55,316*	165,948
Gain/Loss	32,795	*-55,316*	-22,521
Equity impact (AFS reserve)	32,797	*-55,084*	-22,286
Income statement impact (impairment)	-2	*-232*	-234

(1) Some Equity instruments classified as available-for-sale financial assets are not covered here.

In EUR thousand

31/12/2013	Current situation (1)	*Impact of a markets' decrease of 25%*	Stock after decrease
Marked-to-Market value	389,560	*-97,390*	292,170
Gain/Loss	80,527	*-97,390*	-16,863
Equity impact (AFS reserve)	82,647	*-92,772*	-10,124
Income statement impact (impairment)	-2,121	*-4,618*	-6,739

(1) Some Equity instruments classified as available-for-sale financial assets are not covered here.

The global ALM equity exposure decreased in 2014 further to sales performed in line with the objectives assigned to the ALM Equities portfolio. The role of the Group Asset Allocation Committee's (GAAC) was reinforced as support in this decision making process.

3.2.2.2. Concentration of equity risk

The decision to increase/decrease the proportion of equity in the ALM portfolio is taken at the ALCO level (within the limits agreed by the BRC) taking into consideration macro and fundamental analysis as well as convictions from the Group Asset Allocation Committee. Such analysis also influences the relative weights of Europe, USA and Emerging Markets. Within the various regions, an adequate sectorial diversification is looked for. Concentration limits are expressed in absolute amounts and in percentage of daily volume traded.

Next to this strategic investment policy, the Bank also acts as seed investor when new home investment funds are launched.

Following the principles presented above, the breakdown of the whole Equity portfolio of KBL *epb* group (direct lines and Funds) per nature and per region shows a prominent pan-European part as at end of December 2014:

In EUR million

REGION / NATURE	**31/12/2014**	
Europe (Equity Funds + direct lines)	55.1	28%
Europe (Diversified Funds)	12.9	6%
Europe (Fixed Income Funds)	18.5	9%
World (Equity Funds + direct lines)	20.7	10%
World (Diversified Funds)	65.0	32%
World (Fixed Income Funds)	0.0	0%
United States (Equity Funds + direct lines)	28.1	14%
United States (Fixed Income Funds)	0.0	0%
Asia (Equity Funds + direct lines)	-	-
TOTAL	**200.3**	**100%**
Other Equities	20.9	
Total Equities portfolios	**221.3**	

However, within these regions, the diversification is permanently targeted: a.o. for direct lines (equities), the breakdown per country is as follows as at 31 December 2014:

In EUR million COUNTRY	31/12/2014	
United States of America	8.0	23%
Switzerland	7.4	21%
Germany	4.6	13%
The Netherlands	3.8	11%
Spain	3.7	11%
France	3.2	9%
Belgium	2.0	6%
Finland	1.7	5%
Portugal	0.3	1%
Luxembourg	0.2	0%
TOTAL Direct Lines Equity	**34.7**	**100%**
Funds and other	186.5	
Total Equities portfolios	**221.3**	

Similarly, the breakdown of the direct lines per economic sector reflects the permanent attention to the diversification of the Equity portfolio:

In EUR million SECTOR	31/12/2014	
Consumer, non-cyclical	12.1	35%
Utilities	5.6	16%
Communications	4.8	14%
Basic materials	4.2	12%
Technology	3.9	11%
Industrial	1.5	4%
Consumer, cyclical	1.3	4%
Diversified	0.9	2%
Financial	0.3	1%
TOTAL	**34.7**	**00%**
Funds and other	186.5	
Total Equities Portfolios	**221.3**	

On the other hand, as at 31 December 2014, the individual exposures entailing equity risk, except seed moneys and pure bonds funds, do not exceed EUR 21 million per Fund and EUR 4 million per direct line (with historical positions being the most significant).

4. Liquidity risk

4.1. Qualitative information

4.1.1. Origin of liquidity risk

Liquidity risk is constantly monitored and is not seen as a major risk within KBL *epb* group. Indeed, the Bank as a Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: Private Banking and Global Investor Services, which on the other hand consume relatively little liquidity. The overall funding gap is structurally and globally positive and KBL *epb* group is a net lender recycling structural liquidity positions in the interbank market.

4.1.2. Liquidity decision making process/governance

Like for Assets and Liabilities Management, the Group ALCO Committee has the final responsibility for the Liquidity Management of KBL *epb* group. Group ALM proposes strategies – with the approval of the local Management/ALCO Committee - for the management of long term liquidity (putting, a.o. a strong emphasis on ECB eligible as well as Basel III eligible bonds), while the short term liquidity management is delegated to the Treasurer within strict limits (see trading risk above).

Group Risk Control acts as a second level control entity, issuing opinions on the proposals and monitoring the liquidity risk on a daily basis (through a set of indicators briefly described in section 4.1.4).

4.1.3. Liquidity policy

The current policy applied by KBL *epb* group is to centralise the placement of all liquidity surpluses at the Head Office level. However, when local regulatory constraints exist (large exposures regime, liquidity constraints), the subsidiaries' liquidity is collateralized or is reinvested in local ALM portfolios under the supervision of both Group ALM and Group Risk Control.
At the Head Office, the stable part of global funding is reinvested in ALM portfolios following a conservative strategy (a.o. respecting minimum European Central Bank/Basel III eligibility and rating criteria) and the unstable part of global funding is replaced in the short-term interbank market, largely through reverse repo transactions.

4.1.4. Measurement and monitoring of liquidity risk

The Board Risk Committee has expressed its Risk Appetite in terms of liquidity risk, by imposing limits for each entity of the Group on the Basel III ratios (LCR and NSFR), and on deposits outflows. Furthermore, the loan-to-deposit ratio and some concentration indicators are more specifically monitored by the ALCO Committee.

As the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department (under regulatory constraints), KBL *epb*'s operational liquidity situation is daily monitored by Group Market Risk Control through operational liquidity indicators and reported to Global Markets (and more specifically to Group Treasurer). Main operational indicators are:

- A contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- The stock of available liquid assets;
- A daily estimate of the Basel III liquidity coverage ratio, which stood at 114.3% as at 31 december 2014;
- The value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists in various actions depending on the gravity - minor, major - of the liquidity crisis).

As far as structural indicators are concerned, the 'Private Banking customers Loan-to-Deposit ratio (LTD)' is established on a monthly basis for KBL *epb* group. As at 31st December 2014, it stood at 40.7%, confirming the excellent liquidity situation of the Group as natural deposit collector.

In addition, liquidity stress tests are run on a quarterly basis with the aim to assess the ability of KBL *epb* group to survive a severe liquidity crisis during a 3-month time period without affecting its business model.

4.2. Quantitative information

4.2.1. Maturity analysis of liquid stock

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

In EUR million

Marketable assets 31/12/2014	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		**5,075.4**	**3,776.3**	**3,242.6**	**1,725.1**	**891,2**
CB eligible	3,833.1	-921.8	-427.4	-1,202.0	-645.9	-673.9
Marketable securities	1,242.3	-377.3	-106.3	-315.5	-188.1	-173.2
Total	5,075.4	-1,299.1	-533.7	-1,517.5	-834.0	-847.0
Residual stock of available assets	**5,075.4**	**3,776.3**	**3,242.6**	**1,725.1**	**891.2**	**44.1**

In EUR million

Marketable assets 31/12/2013	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		**5,011.3**	**3,023.8**	**2,763.7**	**1,253.3**	**667.0**
CB eligible	4,026.3	-1,778.3	-235.1	-1,245.6	-462.8	-312.6
Marketable securities	985.0	-209.3	-25.0	-264.8	-123.6	-217.3
Total	5,011.3	-1,987.5	-260.1	-1,510.4	-586.4	-529.9
Residual stock of available assets	**5,011.3**	**3,023.8**	**2,763.7**	**1,253.3**	**667.0**	**137.1**

4.2.2. Maturity analysis of financial assets and liabilities

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

In EUR million

31/12/2014	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	1,003	-	-	-	-	-	1,003
Financial assets	2,988	1,077	2,319	1,049	1,262	2,173	10,868
Held-for-trading	259	363	54	10	68	5	**759**
Designated at fair value through profit or loss	-	-	-	-	-	1,947	**1,947**
Available-for-sale financial assets	310	498	1,849	467	746	221	**4,090**
Loans and receivables	2,420	216	393	572	448	-	**4,049**
Hedging derivatives	0	0	23	-	0	-	**23**
Accruals	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	575	575
TOTAL ASSETS	3,991	1,077	2,319	1,049	1,262	2,748	12,446

Deposits from central banks	0	-	-	-	-	-	0
Financial liabilities	8,332	156	328	36	120	1,943	10,915
Held-for-trading	179	31	17	-	43	0	**271**
Designated at fair value through profit or loss	-	-	-	-	-	1,943	**1,943**
Measured at amortised cost (excluding subordinated liabilities)	8,134	118	46	7	1	-	**8,305**
Subordinated liabilities	14	2	215	1	0	-	**231**
Hedging derivatives	5	5	50	29	76	-	**165**
Accruals	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	584	584
Provisions	-	-	-	-	-	45	**45**
Other liabilities	-	-	-	-	-	539	**539**
Shareholders' equity	-	-	-	-	-	947	947
TOTAL LIABILITIES	8,332	156	328	36	120	3,474	12,446
GAP	-4,341	921	1,991	1,013	1,142	-725	

Of which derivatives:

Cashflows by bucket

31/12/2014	Less than 3 months EUR thousand	Between 3 months and 1 year EUR thousand	Between 1 year and 3 years EUR thousand	Between 3 years and 5 years EUR thousand	More than 5 years EUR thousand	Total EUR thousand	Carrying amount EUR million
Inflows	4,949	3,021	75	69	82	8,197	4,334
Interest rate	44	60	63	24	18	**209**	**4,093**
Equity	0	0	0	0	0	**0**	**68**
Currency	4,905	2,961	12	45	64	**7,987**	**172**
Other	-	-	-	-	-	-	**1**
Outflows	-4,992	-2,992	-123	-104	-100	-8,312	401
Interest rate	-47	-81	-93	-41	-26	**-289**	**177**
Equity	-0	-0	-0	-0	-0	**-0**	**68**
Currency	-4,946	-2,911	-30	-62	-75	**-8,023**	**155**
Other	-	-	-	-	-	-	**1**
Gap - Derivatives	-43	-29	-48	-35	-19	-116	

In EUR million 31/12/2013	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	1,171	-	-	-	-	-	1,171
Financial assets	3,651	712	1,734	1,114	1,243	2,253	10,708
Held-for-trading	142	93	72	13	66	4	390
Designated at fair value through profit or loss	-	-	-	-	0	1,863	1,863
Available-for-sale financial assets	351	431	1,344	771	722	386	4,005
Loans and receivables	3,157	189	286	329	454	-	4,415
Hedging derivatives	1	-	32	0	2	-	34
Other assets	-	-	-	-	-	589	589
TOTAL ASSETS	4,822	712	1,734	1,114	1,243	2,842	12,469
Deposits from central banks	0	-	-	-	-	-	0
Financial liabilities	8,257	295	299	29	83	1,856	10,820
Held-for-trading	176	65	26	1	41	0	309
Designated at fair value through profit or loss	-	-	-	-	-	1,856	1,856
Measured at amortised cost (excluding subordinated liabilities)	8,067	226	19	3	1	0	8,315
Subordinated liabilities	14	2	226	2	1	-	245
Hedging derivatives	1	2	28	24	41	-	95
Other liabilities	-	-	-	-	-	690	690
Provisions						34	34
Other liabilities						656	656
Shareholders' equity	-	-	-	-	-	959	959
TOTAL LIABILITIES	8,257	295	299	29	83	3,505	12,469
GAP	-3,435	416	1,435	1,085	1,160	-663	

Of which derivatives:

31/12/2013	Cashflows by bucket: Less than 3 months EUR thousand	Between 3 months and 1 year EUR thousand	Between 1 year and 3 years EUR thousand	Between 3 years and 5 years EUR thousand	More than 5 years EUR thousand	Total EUR thousand	Carrying amount EUR million
Inflows	6,852	1,724	129	40	68	8,813	286
Interest rate	47	113	125	24	16	325	84
Equity	0	0	0	1	0	2	122
Currency	6,805	1,611	3	16	52	8,487	79
Other	-	-	-	-	-	-	0
Outflows	-6,892	-1,750	-143	-55	-79	-8,918	399
Interest rate	-47	-128	-130	-32	-18	-355	141
Equity	0	-0	-0	-0	-0	-1	123
Currency	-6,845	-1,622	-13	-22	-60	-8,562	135
Other	-	-	-	-	-	-	0
Gap - Derivatives	-40	-26	-14	-15	-10	-105	

4.2.3. Concentration risk

The concentration risk the Bank is facing in terms of liquidity is twofold:

- potential concentration in assets in which the excess liquidity is reinvested: this risk is monitored according to the credit risk limits system (as described above);
- potential concentration in funding sources: this risk is monitored according to Risk Appetite limits and triggers regarding the relative weight of the top 20 private client deposits. This indicator is monthly monitored by Group ALCO and is reported on a quarterly basis to Group BRC. It amounts to 10% for KBL *epb* group as at 31 December 2014 vs. a limit of 25%. It is is completed with a concentration indicator for all significant counterparties in terms of funding sources (>1% of total liabilities, according to Basel III definition).

<u>BIL</u>

1. Introduction

1.1 Key events of 2014

BIL group's Risk Management department has followed the development of the Bank's activities and risk profile during 2014. The Bank has pursued the projects initiated in 2012 regarding the on-going evolution of its monitoring and controlling frameworks.

Among the various projects conducted within the Risk Management department, the implementation of the Basel III requirements, as transposed within the EU legislation through the CRD IV package, can be pointed out as a major step towards enhancing the overall risk management practices.

The setting up on November 4, 2014 of the Single Supervisory Mechanism (SSM), where the ECB took on – together with the National Competent Authorities (NCAs) – the direct supervision of around 130 credit institutions within the euro zone, among which Precision Capital (and thus BIL group), is also an important change which will lead to the improved harmonisation of practices and thus transparency at the European level.

Prior to the SSM becoming fully operational, in 2014, the ECB and the NCAs conducted a comprehensive assessment including an in-depth Asset Quality Review (AQR) of the participating banks' balance-sheets and an EU-wide stress test aiming at assessing their resilience to a specific baseline and adverse macro-economic scenarios. The results of this assessment confirmed the overall soundness and strong capital position of Precision Capital and its two majority owned banks, BIL and KBL epb.

Corporate structure and risk profile

During 2014, BIL has continued to deploy its "BIL is Back" strategy which focuses on offering a wide range of products and services to a diversified customer base in Luxembourg as well as in neighbouring and more distant countries. The result of this strategy is detailed in the consolidated management report.

Taking into account various criteria (a.o. financial, macro-economic, political...), the Bank has adapted its investment strategy policy. In a complex economic context, the Bank reached its objective and thus the investment portfolio reached its targeted size (around 4.9 billion) in 2014. As a reminder, the main purpose of this portfolio is to create value while serving as a liquidity reserve for the Bank (i.e. Basel III, Liquidity Coverage Ratio – LCR). The portfolio is primarily composed of top-quality assets with low capital requirements. A very small proportion of the portfolio may be dedicated to riskier assets, i.e. non-LCR or non-Central Bank-eligible assets. The risk profile is monitored by the Financial Risk Management unit according to the portfolio guidelines which provide a set of limits in terms of duration, liquidity aspects, geographic area, currency, RWA, rating and concentration.

Internal Governance

According to CSSF circular 12/552, as amended, and EBA's recommendations, in October 2014, BIL has set-up an Internal Control Committee (ICC) in order to facilitate the effective risk control by the Executive Management Board and to coordinate the activities of the Bank's three Internal Control functions (i.e. Internal Audit, Compliance, Risk). This committee decides on inter-departmental issues related to Internal Control and provides a common position on internal control. From a risk point of view, this committee focuses on operational risk topics.
In 2014, the Bank also decided to reorganise its Operational Risk Management department in order to achieve a more sound and consistent structure allowing the efficient handling of these matters, in line with the challenges imposed by the business and changes in the regulatory environment (please refer to the risk governance section for further details).

1.2 Changes in the regulatory framework

In 2014, BIL continued to invest time and resources in making sure that it is and always will be compliant with regulatory standards.

The effective implementation of the Basel III requirements, as transposed within the EU legislation through the CRD IV package, can be pointed out as a major step towards enhancing the overall risk management practices. These new requirements, in force since January 1, 2014 with a phase-in period running until 2019, have significant repercussions for the Bank's strategy and overall risk profile perception.

In concrete terms, the implementation of the CRD IV package has impacted the Bank's RWA through the application of new specific rules (e.g. additional charges linked to the Credit Valuation Adjustment (CVA) requirements, the unregulated financial institutions and large financial institutions, new treatment of Small and Medium Enterprises...) that resulted in an overall increase of BIL group's regulatory capital requirements. The CRD IV package also resulted in a new definition of capital, the aim of which is to increase the quality, consistency and transparency of the capital base. This new regulation also requires higher capital ratios (please refer to the *Regulatory capital adequacy - Pillar 1* section, for further details).

During the first quarter of 2014, the Bank reported on extended Common Reporting (COREP), including the leverage ratio and enhanced its monitoring of forbearance exposures and non-performing loans. During the second quarter, the Immovable Property Losses report was published. Finally, during the last quarter of 2014, Asset Encumbrance reporting completed the Bank's Financial Reporting (FINREP).

Beyond these important changes, 2014 was a prolific year in terms of publications.

The European Banking Authority (EBA) has produced many papers framed by Regulatory Technical Standards (RTS), Implementation Technical Standards (ITS), Guidelines, Opinions and Consultation Papers in order to facilitate the implementation of the CRD IV package.

In January 2014, the Basel Committee published a consultative document on the Net Stable Funding Ratio (NSFR) and the final standard in October 2014, in which the Committee revised certain aspects of the liquidity regulatory framework. Among other financial stability measures, the Committee improved the alignment of the NSFR with the Liquidity Coverage Ratio (LCR), altered its calibration so as to place greater emphasis on the short term (potentially volatile funding sources) and introduce changes for the required stable funding (i.e. short-term exposures to banks and other financial institutions, derivatives exposures and assets posted as initial margin for derivative contracts).

In addition, the final standard recognises that, under strict conditions, certain asset and liability items are interdependent and can therefore be viewed as neutral in terms of the NSFR. The NSFR will become a minimum standard as of January 1, 2018. The Committee has to finalise the disclosure standards for the NSFR.

In October 2014 the European Commission (EC) adopted Delegated Acts on the LCR in which it expands the range of assets eligible as high quality liquid assets (HQLA, the numerator of the LCR) and modifies some assumed inflow and outflow rates (denominator of the LCR). This regulation shall apply as of October 1, 2015. The timetable for phase-in of the standard from 2015 to 2018 has also been revised. Following the Commission's adoption in October 2014 of a Delegated Act specifying the LCR framework, the EBA has developed amendments to the current ITS on reporting.

At the same time, a Delegated Act issued by the EC has defined the Leverage Ratio specificities and how banks will need to calculate it.

At the end of 2013 the EU's Finance Ministers (Ecofin) reached a compromise agreement on the mutualisation of the cost of resolving banking crises. This agreement, which will serve to break the vicious circle between banking risk and sovereign risk in Europe includes: the set-up of (i) a single resolution mechanism (SRM) from January 1, 2015, which will cover all the banks participating in the SSM and which in the first year will only handle the approval of viability and resolution plans, (ii) a single resolution fund (SRF), which will come into force in 2016 and will be fully funded in 2026.

In line with those requirements, the Bank has actively worked on the establishment of its first recovery plan which should be submitted to the Bank's Joint Supervisory Team (JST) during the first half of 2015.

1.3 Comprehensive Assessment

Prior to assuming the direct supervision of the largest euro zone banks on November 4th, 2014, the ECB carried out a comprehensive assessment of their corresponding balance sheets. The prime objective of this health check was to increase confidence in the euro zone's banking system, by encouraging greater transparency, ensuring more independent supervision as regards national discretions and a more consistent application of the prudential rules.

The Comprehensive Assessment involved several stages:

- A Supervisory Risk Assessment aimed at addressing key risks in the banks' balance sheets, including liquidity, leverage and funding. In particular, this exercise comprised quantitative and qualitative analysis based on backward- and forward-looking information aimed at assessing banks' intrinsic risk profiles, their positions in relation to their relative peers and their vulnerability to a number of exogenous factors;
- An Asset Quality Review (AQR), examining the asset side of the participating banks. This exercise included an assessment of the banks' internal accounting and risk practices together with an in-depth review of some of their credit and market exposures, both on the provisioning and valuation sides;
- A Stress Test, building on and complementing the AQR and aiming at assessing participating banks' relative resilience to forward-looking baseline and adverse macro-economic scenarios.

BIL group's Risk, Finance, Loans Services and commercial teams were heavily involved in the AQR and Stress Test exercises.

As part of the AQR, more than 1.200 credit files among the bank's more significant ones were reviewed. This review encompasses their classification, quality, collateral value together with their provisioning levels. Moreover BIL's internal accounting and risk procedures and practices were also assessed during this exercise.

As at end 2014, nearly all the quantitative recommendations issued during this exercise have been incorporated within the Bank's financial statements (e.g. specific and collective provisioning) while most of the qualitative findings (e.g. accounting procedures) were either closed or well advanced in their remedial process.

On the Stress Testing side, Precision Capital's results have highlighted the group's financial soundness and resilience to both the baseline and adverse macro-economic scenarios featuring this exercise:

- Under the Baseline Scenario of the Stress Test, Precision Capital's 2016 CET1 ratio stands at 12.5%, comfortably above the 8% minimum set by the ECB;
- Under the most severe Adverse Scenario of the Stress Test, Precision Capital's 2016 CET1 ratio stands at 8.3%, well above the minimum threshold of 5.5% set by the ECB.

Although full results were not available for either bank independently, given that Precision Capital does not hold any other material assets, these results therefore reflect the overall soundness and strong capital position of the balance sheets of both KBL *epb* and BIL.

2. Risk Management missions, organisation and governance

2.1. Missions

The main Risk Management missions are:

- **To ensure that all risks are under control** by identifying, measuring, assessing, mitigating and monitoring them on an on-going basis: global risk policies and procedures define the framework for controlling all types of risks by describing the methods used and the defined limits, as well as the escalation procedures in place;
- **To provide the Authorised Management and the Board of Directors** with a comprehensive, objective and relevant overview of the risks, dedicated reports are sent and presentations are made to the Chief Risk Officer (CRO) on a regular basis;
- **To ensure that the risk limits are compatible** with the Bank's strategy, business model and structure through an effective risk appetite framework, which defines the level of risk the Bank is willing to take in order to achieve its strategic and financial goals;
- **To ensure compliance with banking regulation requirements** by submitting regular reports to the regulators (CSSF, ECB, EBA and BcL), taking part in regulatory discussions and analysing all new requirements related to risk management that could affect the regulatory monitoring of Bank's activities.

2.2. Risk Management Governance

General principles

BIL group's Risk Management framework is based on a decisional process allowing a prudent and sound management of risks. The decisional process is defined by:

- The responsibilities of the Board of Directors, the Board Risk Committee, the Audit and Compliance Committee and the Management Board and their roles in decision-making and risk management;
- Risk committees of which at least one member of the Management Board is a member, and the mission of these committees in decision-making;
- Other committees that are formalised meetings whose members are experts and operational teams, and their missions in decision-making ;
- The maintenance of a set of policies, guidelines and procedures explaining the activities, the definition of limits for risk-taking by operational units, consistent with the bank's risk appetite, the process of detection, assessment and measurement, reporting, management and control of the risks induced by the Bank's activities.

BIL entities' internal control functions report from both a hierarchical and a functional point of view for branches and from a functional point of view for subsidiaries to the corresponding control functions at BIL Head Office level.

BIL group's Risk Management governance is based on a clear decisional process framed by the following committees:

Board of Directors

Among its missions, the Board of Directors is responsible for setting and overseeing the overall business strategy, the overall risk strategy and policy including the risk tolerance/appetite and the Risk Management framework.
According to CSSF circular 12/552, as amended, the Board of Directors makes a critical assessment of the internal governance mechanisms and approves them by taking into account:

- The balance between the incurred risks, the ability of the establishment to manage these risks, own funds and internal and regulatory reserves;
- The strategies and guiding principles with a view to improve and adapt them to internal and external, current and anticipated changes;
- The manner in which the management board meets its responsibilities (for instance by ensuring corrective measures are implemented);
- The effectiveness and efficiency of internal control mechanisms;
- The adequacy of the organisational and operational structure.

These assessments may be prepared by dedicated internal committees and be notably based on the information received from the Management Board, the ICAAP report and the summary reports of the internal control functions which the Board of Directors is called upon to approve on this occasion.

Board Risk Committee

The Board Risk Committee is responsible for proposing BIL's group risk policy to the Board of Directors. This Committee also ensures that BIL's activities are consistent with its risk profile and establishes global limits for the main risk exposures.

Among its roles, the Board Risk Committee reviews and recommends changes to the BIL group Risk Management framework and the global risk limits and capital allocation to the Board of Directors; it reviews the global BIL group risk exposure, major Risk Management issues and capital adequacy requirements covering all of the group's risks; it reviews, assesses and discusses with the independent auditor on an annual basis any significant risk or exposure and relevant risk assessments; and it also reports regularly to the Board of Directors and makes such recommendations with respect to any of the above or other matters.

The Board Risk Committee is a specialised committee supporting the Board of Directors on subjects related to risks.

Audit and Compliance Committee

Among its missions, the Audit & Compliance Committee monitors the effectiveness of the bank's internal control, internal audit, and risk management framework; it aims also at giving an independent assistance to the Board of Directors on the supervision of the bank's management. It ensures that the Management Board does a follow-up of the recommendations of the external auditors, and to improve the organization and the Internal Control (according to the meaning of the CSSF circulars).

Internal Control Committee

The Internal Control Committee is a sub-committee of the Management Board which coordinates the activities of the Bank's three Internal Control functions (i.e. Internal Audit, Compliance, and Risk). It decides on inter-departmental issues related to Internal Control and provides a common position from Internal Control functions.

Management Board

The Management Board is responsible for implementing and establishing a safe and sound management, in accordance with the principles and objectives established by the Board of Directors.

Among its responsibilities, at least once a year, the Management Board is also in charge of informing the Board of Directors of the internal governance arrangements, including the state of compliance and internal control as well as the ICAAP report on the situation and management of risks and the internal and regulatory own funds and liquidity (reserves). Moreover, once a year, the Management Board confirms the compliance with CSSF circular 12/552, as amended. The information to be provided is submitted to the CSSF together with the annual accounts to be published.

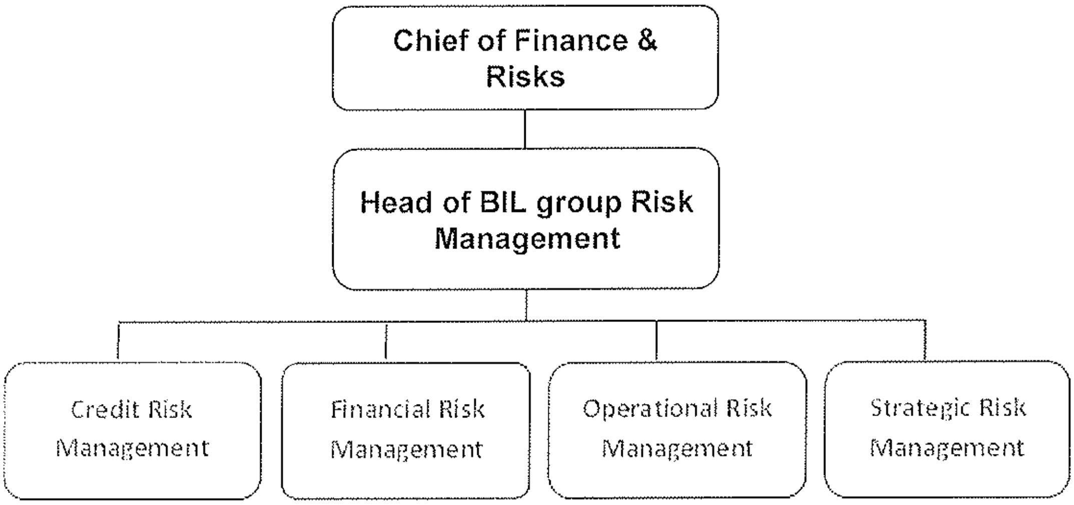
The Executive Management ensures that rigorous and robust processes for risk management and internal controls are in place, and that the Bank is sufficiently staffed to be able to implement the safe and sound management of its activities. These processes include the establishment of strong risk governance.

Risk Committees

Risk committees are constituted and receive their mandate from the Management Board within a precise and defined scope. They facilitate the development and implementation of sound practices of governance and decisions. Their mandate and roles, their members and other rules settling how they are functioning, are described in a specific form. At least one member of the Management Board is part of the Risk Committees. While these Risk Committees make decisions related to the overall risk process, the Board of Directors and the Management Board are not exempt from their responsibilities.

Risk Management organisation

To reflect a sound management of risk and develop an integrated risk culture, the Bank has set up an effective Risk Management organisation, in adequacy with its activities, encompassing the relevant risks resulting from the activities:

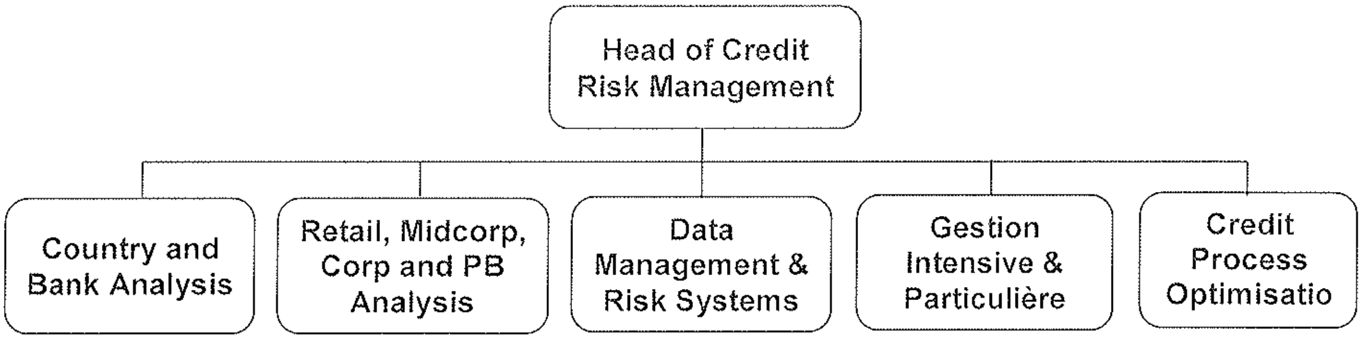


At the Management Board level, the overall Risk Management framework remains under the Chief Risk Officer (CRO)'s responsibility, and the CRO is responsible for providing any relevant information on risks to the Management Board, enabling the Bank's overall risk profile to be defined and managed.

The CRO delegates the day-to-day supervision of the department to the Head of BIL group Risk Management.

In terms of organisation, BIL group's Risk Management department is based on four specific units described in greater detail below.

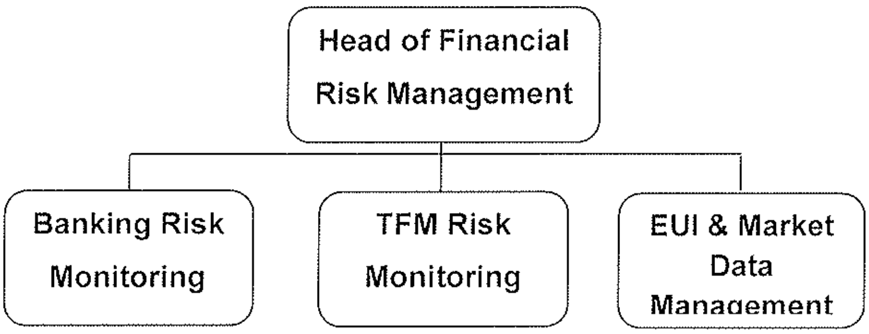
Credit Risk Management



The Credit Risk department is in charge of defining credit risk policies and guidelines, analysing counterparties and monitoring the Bank's credit risk portfolio. This department is composed of five different teams:

- The "Country and Bank Analysis" team is responsible for assessing and monitoring the risks related to banks and sovereigns counterparts. The team is also in charge of assigning internal ratings to BIL counterparties and monitoring the corresponding portfolio;
- The "Retail, Midcorp, Corp and Private Bank Analysis" team is responsible for the retail, corporate and institutional counterparts. The team is also in charge of assigning internal ratings to BIL counterparties and monitoring the corresponding portfolios;
- The "GIP" (Gestion Intensive et Particulière) follows and manages the assets deemed to be "sensitive" with a proactive approach, in order to minimise the potential losses for the Bank in case of a counterparty's default;
- The "Data Management & Risk Systems" teams are in charge of the development and maintenance of the data and risk systems used for the calculation of the credit risk capital requirements and the corresponding regulatory reportings, These teams are also responsible for the production of regulatory and internal reports related to Credit Risk such as the COREP, Large Exposures, Quarterly Risk Report, and cover ad-hoc requests from regulatory authorities;
- The "Credit Process Optimisation" team is in charge of the internal project related to the optimisation of the credit chain. The team's main purpose is to improve the end-to-end credit processes, from a credit risk perspective.

Financial Risk Management

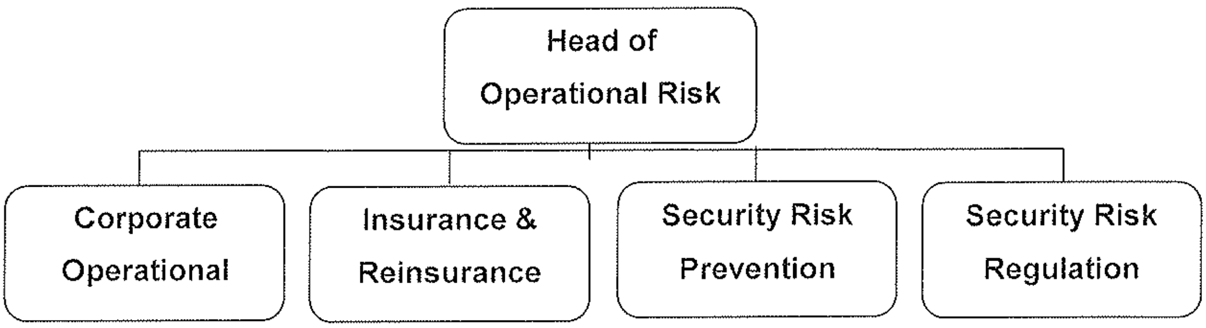


The Financial Risk Management team is in charge of defining policies and guidelines on financial market activities, and of identifying, analysing, monitoring and reporting on risks and results.

The department is split in three teams:

- The "Banking Risk Monitoring" team is in charge of the follow-up of the counterparties' limits, of margin calls for collateral management purposes, of banking book activity and of liquidity risk. It also implements the new regulatory ratios (e.g. LCR, NSFR, liquidity monitoring tools,etc.);
- The "TFM Risk Monitoring" team's main tasks are the implementation and follow-up of the financial risks of the Financial Markets' activities (i.e. Fixed Income, Forex, Structured Products and Brokerage), the calculation of BIL's group Value at Risk (VAR), the detection of suspicious transactions and the reconciliation of positions with Profit or Loss (P/L);
- The "EUI (End-User Integration) & Market Data Management" team is in charge of the maintenance and of the evolution of Market Risk data as well as dealing with dedicated reports and systems.

Operational Risk Management

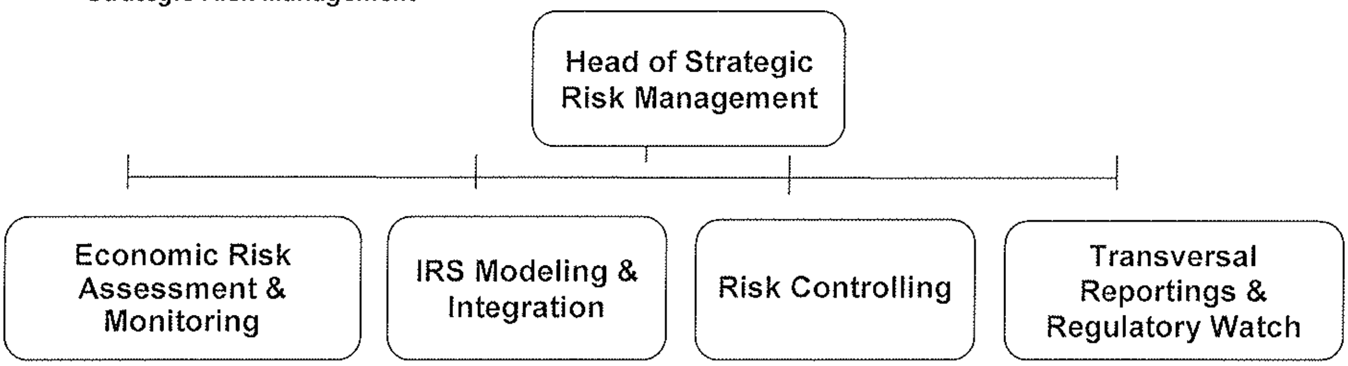


This department encompasses the management of Corporate Operational Risks, Insurance & Reinsurance and Security Risks (prevention, regulation):

- The "Corporate Operational Risk" (COR) team is responsible for the description of the Bank's internal operational Risk Management framework and for ensuring its implementation and application throughout BIL group. In addition, COR is in charge of recording operational incidents, implementing key risk indicators, supervising the Risk and Control Self-Assessment (RCSA) performed by each Business Line/branch/subsidiary, and following the resulting action plans. COR is deeply involved in the organization of (and also provides quarterly reports to) the Operational Risk and New Products Committee;
- Based on the Bank's risk profile, the "Insurance & Reinsurance" team develops and ensures the adequacy (i.e. establishment of new insurance policies and / or update of existing policies) of the (re)insurance policy and (re)insurance system within the Bank and its branches/subsidiaries. The team also provides a centralised management of (re)insurance contracts and acts as single point of contact for our brokers, insurance companies and others insured bodies;

- The "Security Risk Prevention" team is in charge of ensuring Information Security by defining the access rules to information in accordance with the Bank's Security Policy, securing access to information by implementing tools and defining access granting procedures, and addressing the Bank's new challenges (i.e. reorganisation, restructuring, expansion, etc.) by working to adapt its system for managing access to information. The team is also responsible for analysing the risks related to the availability of critical activities (i.e. BIA[1], RTO[2], RPO[3]) and considering the strategy to reduce these risks to an acceptable level through the development, testing and maintenance of a Business Continuity Plan;
- The "Security Risk Regulation" team is responsible for the analysis of risks related to the availability, confidentiality and integrity of information and for the strategy, actions and projects to reduce these risks to an acceptable level: the management of security governance (i.e. roles, responsibilities, committees, processes); development and maintenance of information classification, ensuring employees awareness of security requirements, management of security incidents related to information, organisation of the Crisis Committee and Security Committee and implementation and monitoring of decisions, execution of controls to ensure compliance with the Security Policy as well as some aspects of the legal and regulatory compliance related to information security issues.

Strategic Risk Management



The Strategic Risk Management department consolidates all the activities related to the modelling and the monitoring of the Bank's inter-departmental risks. This department is made up of four different teams:

- The "Economic Risk Assessment & Monitoring" team develops an overall framework for the assessment and the monitoring of economic risks facing the Bank in the course of its activities. This framework comprises the development and integration of the Bank's ICAAP process (i.e. risk cartography, economic capital, risk appetite and stress-testing) as well as the proposition of a dedicated support to the group's other departments in terms of quantitative developments;
- The "IRS Modeling & Integration" team is in charge of the modeling of the Bank's internal rating systems (developed within the AIRB framework) and their subsequent integration within the businesses. This mandate also comprises the follow-up of key credit risk indicators (e.g. Non-Performing loans, Provisioning) as well as the realisation of the Bank's credit risk related stress-tests;

[1] Business Impact Analysis.
[2] Recovery Time Objective.
[3] Recovery Point Objective.

- The "Risk Controlling" team's aim is to validate the credit risk models' adequacy and performance (Model Validation) as well as their correct use by the credit risk teams regarding both use-tests requirements and dissemination of their corresponding outputs within the Bank's information systems (Rating Systems Quality Control);
- The "Transversal Reportings & Regulatory Watch" team aims to consolidate all of the Group risks reports in order to produce an overall view of the Bank's risk profile. This activity thus includes the development and production of a set of inter-departmental reports comprising, among others, the Basel III Pillar 3 Disclosures, the coordination and consolidation of the Risk Management department's contributions to the Annual/Semi-Annual Reports, Long Form Reports and rating agencies' requests as well as the production of a framework dedicated to the monitoring of risks incurred by BIL group's branches/subsidiaries. Moreover, this team is also in charge of regulatory watch activity and coordination of the inter-departmental projects dedicated to these matters (e.g. Basel III, ECB's Comprehensive Assessment, etc).

3. Credit Risk

3.1. Definition

Credit risk represents the potential loss (reduction in value of an asset or payment default) that BIL may incur as a result of a deterioration in the solvency of any counterparty.

3.2. Risk Policy

BIL's Risk Management department has established a general policy and procedure framework in line with the Bank's risk appetite. This framework guides the management of credit risk from an analysis, decision-making and risk monitoring perspective. The Risk Management department manages the loan issuance process by delegating, within the limits set by the Bank's management, and by chairing credit and risk committees. As part of its credit risk monitoring tasks, Credit Risk Management supervises changes in its portfolios' credit risks by regularly analysing loan applications and reviewing ratings. The Risk Management department also draws up and implements the policy on provisions, decides on specific provisions, and assesses defaults.

3.3. Organisation and Governance

BIL's Risk Management department oversees the Bank's credit risk, under the supervision of the Management Board and dedicated committees.

The Risk Policy Committee defines the general risk policies, as well as specific credit policy in different areas or for certain types of counterparty and sets up the rules for granting loans, supervising counterparty rating and monitoring exposures. The Risk Policy Committee validates all changes in procedures or risk policy, internal rating systems, principles and calculation methods referring to risk.

In order to streamline the decision-making process, the Management Board delegates its decision-making authority to credit committees or joint powers. This delegation is based on specific rules, depending on the counterparty's category, rating level and credit risk exposure. The Board of Directors remains the ultimate decision-making body for the largest loan applications or those presenting a level of risk deemed to be significant. The Credit Risk Management department carries out an independent analysis of each application presented to the credit committees, including determining the counterparty's rating, and stating the main risk indicators; it also carries out a qualitative analysis of the transaction.

Alongside supervision of the issuance process, various committees are tasked with overseeing specific risks:

- The Default Committee identifies and tracks counterparties in default, in accordance with Basel regulations, by applying the rules in force at BIL, determines the amount of allocated specific provisions and monitors the risk cost. The same committee supervises assets deemed to be "sensitive" and placed under surveillance by being filed as "Special Mention" or put on "Watchlists";
- The Rating Committee ensures that the internal rating systems are correctly applied and that rating processes meet pre-defined standards;
- The Internal Rating Systems Performance Committee ensures the monitoring of BIL's internal rating systems' performance through time (i.e. backtesting, benchmarking, model validation) and discusses all the strategic choices related to this matter (e.g. new model development, material changes ...).

3.4. Risk Measurement

Credit risk measurement is primarily based on internal systems introduced and developed within the Basel framework. Each counterparty is assigned an internal rating by credit risk analysts, using dedicated rating tools. This internal rating corresponds to an evaluation of the level of default risk presented by the counterparty, expressed by means of an internal rating scale. It is a key factor in the loan issuance process. Ratings are reviewed at least once a year, making it possible to identify counterparties requiring the close attention of the Default Committee.
To manage the general credit risk profile and limit concentration of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable level for each one. Limits by economic sector and by product may also be imposed by the Risk Management department. The latter actively monitors limits, which it can reduce at any time, in light of changes in related risks. The Risk Management department may freeze specific limits at any time in order to take the latest events into account.

Focus on the forbearance measure

Since the first quarter of 2014, BIL monitored closely its forborne exposures, in line with EBA Final Draft ITS requirements published in October 2013 and updated on 25 July 2014.

The previous CSSF definition of restructured credit is close to the EBA definition; the latter provides institutions with more details regarding the way this notion should be addressed across different jurisdictions. According to EBA's definition, forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

Once those criteria are met, the credit files are flagged as being restructured and are added to a list closely followed by the team "Gestion Intensive et Particulière".

Following the publication of EBA standards, BIL group has adapted its internal forbearance definition in order to fully comply with the suggested one. Concretely, analyses have been conducted internally on specific credit files with the aim of defining and identifying relevant operational criteria for the forbearance classification. These efforts continued during the first quarter of 2014 and led to dedicated methodologies being set up that will be further refined in order to meet EBA's requirements.

In order to comply with those requirements, BIL group has set up a dedicated project aimed at (1) identifying the criteria leading to the forborne classification, (2) classifying the Bank's existing exposures between the forborne and non-forborne ones and (3) implementing these criteria across the systems.

For non-retail counterparties, dedicated analyses have been carried out at single credit files level in order to identify those that should be classified as forborne according to the EBA's definition. For the retail counterparties, a specific methodology has been implemented in order to detect all of the forborne candidates. In a nutshell, this methodology first identifies the credits for which concessions have been granted to the debtors and then analyses if these concessions coincided with financial difficulties at the debtor level (based on criteria like past-due, rating...). This methodology was used in 2014 for the resumption of the retail stock and from 2015 on, the Bank will also apply the non-retail methodology to the retail exposures.

The granting of forbearance measure is likely to constitute an impairment trigger, meaning that the loan should be assessed for impairment either individually or as part of a collective assessment.

For credit files in forbearance and in case of early repayment, the costs related to these transactions are either borne by the debtor (in one shot or spread over the term of the new loan) or recognised directly in the Bank's profit or loss.

As at end 2014, BIL group's forborne exposures amounted to 197 million including 12 million as given banking guarantees. The significant decrease observed since end 2013 (386 million as at December 2013) is mainly explained by the deep analyses conducted this year in order to refine the forborne perimeter on the retail portfolio. In 2013, the forborne retail portfolio resulted from the application a statistical approach.

3.5. Risk Exposure[4]

Credit risk exposure includes:

- The net carrying value of balance sheet assets other than derivative products (i.e. The carrying value after deduction of specific provisions);
- The mark-to-market valuation of derivative products;
- Total off-balance sheet commitments corresponding to unused lines of liquidity or to the maximum amount that bil is committed to as a result of guarantees issued to third parties.

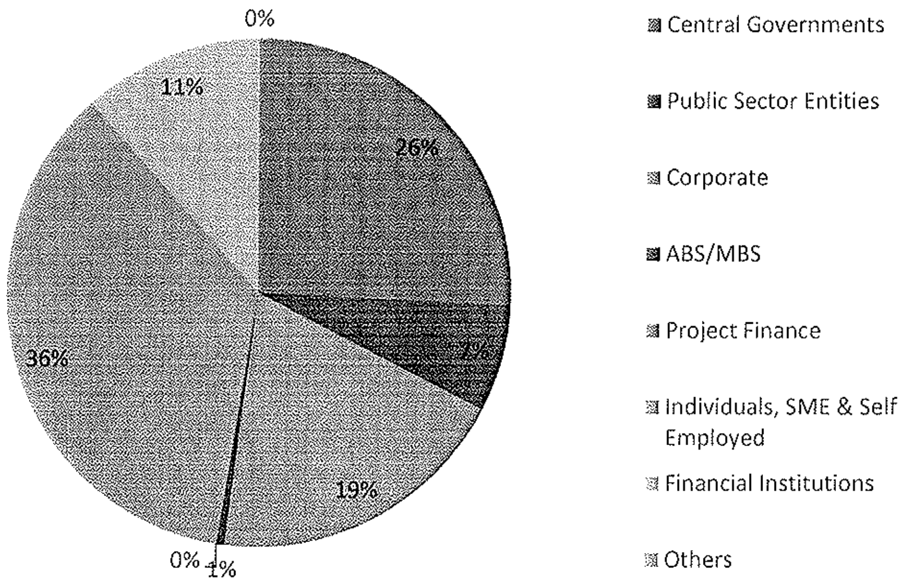
The substitution principle applies where the credit risk exposure is guaranteed by a third party with a lower risk weighting. Therefore, counterparties presented hereafter are final counterparties, i.e. after taking into account any eligible guarantees.

As at December 31, 2014, the Bank's total credit risk exposure amounted to 20.25 billion, namely 0.79 billion above the end 2013 level. This variation is mainly explained, on the one hand, by the increase observed on both the Bank's Public Sector Entities (+0.45 billion) and Individual, SME and Self-Employed (+0.4 billion) portfolios, and on the other hand, the decrease of -0.2 billion observed on Central Governments counterparties.

[4] Rounding differences and percentages calculated on exact numbers

Exposure by type of counterparty

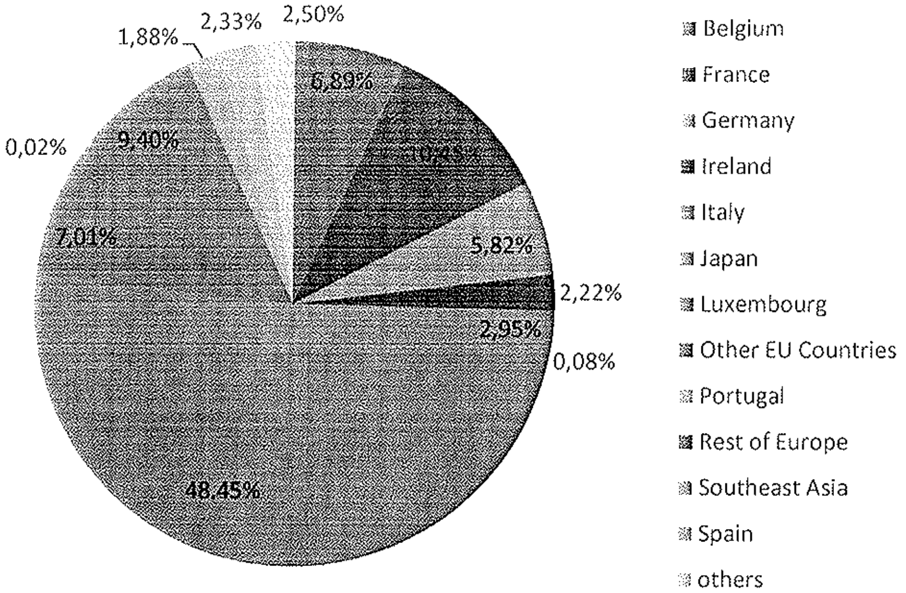
In line with BIL group's business model and strategy, in 2014, the Individuals, SME and Self Employed segment remains the Bank's largest portfolio, representing around 36% of the overall exposure (7.3 billion, +0.4 billion as compared to end 2013).
Despite the relatively small decrease observed this year (-0.2 billion), the Central government exposure weighting is relatively stable when comparing with the previous year (26% in 2014 vs. 28% in 2013). This change can largely be explained by the Austrian and Belgian positions reaching maturity of being sold.
Finally, it is also worth noting the increase on the Public Sector Entities exposures (7% of the overall exposure, +0.45 billion as compared with 2013) mainly explained by the purchase of bonds issued by Belgian and French counterparties.



Type of Counterparty	31/12/14	31/12/13	Variation in EUR million
	EUR million	EUR million	
Central Governments	5'225	5'462	(237)
Public Sector Entities	1'372	925	447
Corporate	3'941	3'870	71
ABS/MBS	100	0	100
Project Finance	6	35	(29)
Individuals, SME & Self Employed	7'277	6'898	379
Financial Institutions	2'326	2'191	135
Others	6	75	(69)
Group Total Exposure	20'253	19'456	797

Exposure by geographic region

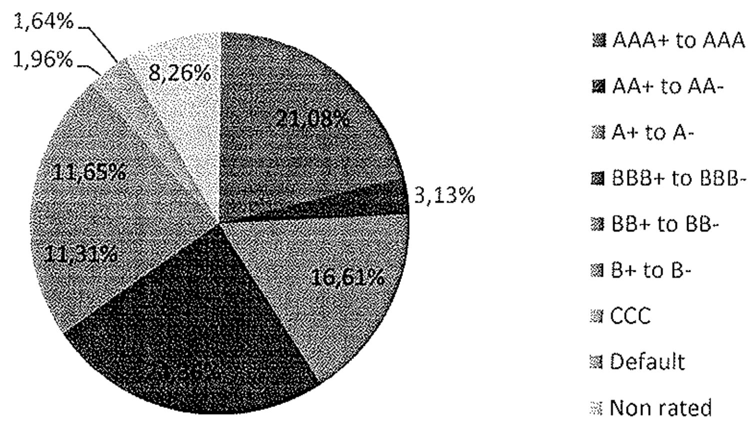
As at December 31, 2014, the Bank's exposure continued to be mainly concentrated in Europe, primarily in Luxembourg (48.44%), France (10.45%), Belgium (6.89%) and Germany (5.82%).



Exposure by internal rating

The credit risk profile of the Bank has remained stable since year-end 2013 and is of good quality. Indeed, the Investment Grade (IG) exposures represent 65% of the total credit risk exposure, of which 21% lies within the AAA+ to AAA range.

In 2014, the relative weight of the IG class decreased by 4.3% in favour of the non-rated class. This can mainly be explained by the growth observed on the real estate projects exposures.
The proportion of defaults decreased slightly by the end of 2014 (1.64%) when compared with the level at end 2013 (1.87%).



Exposure to PIIGS

Breakdown of the government bond portfolio for sensitive European countries by maturity bucket for 2014. (excluding trading both 2013 and 2014)

(in EUR million)	31/12/13	31/12/14									
		2015	2016	2017	2018	2019	2021	2023	2024	2025	TOTAL
Ireland	224	31	76	116	0	0	0	0	24	43	290
Italy	432	88	213	136	11	0	26	31	0	0	505
Spain	251	21	97	20	0	11	0	53	55	0	257
TOTAL	907	140	386	272	11	11	26	84	79	43	1052

The net increase of the PIIGS exposure is explained by 0.53 billion of new investments, as compared with sales of or matured positions representing 0.38 billion.

As at end 2014, the bank has no investments in Portuguese or Greek government bonds.

Large exposures

According to its letter dated November 22, 2012, the CSSF has granted a total exemption for BIL's exposure towards its sister company KBL *epb* and its subsidiaries in the calculation of large exposure limits, in accordance with the former Circular 06/273 (part XVI, point 24), as amended. As at December 31, 2014, BIL had no exposure towards its sister company KBL *epb*.

Asset Quality

Both the Bank's loan portfolio size (including impaired and non-impaired loans to customers) and the specific provisions level have increased in 2014. The asset quality ratio as at December 31, 2014 remains stable compared to 2013 (2.83%).

At the end of 2014, the amount of impaired loans and advances to customers was 314 million, corresponding to a relative increase of 7.6% as compared with the previous year. Moreover, a net increase of specific provisions (+25 million) is observed on this portfolio, mainly explained in particular by additional provision booked following the AQR findings. This also explains the increase of the BIL's coverage ratio to a sound level of 81.46%.

The Bank's collective impairments also increased in 2014 (+6.4 million as compared with the previous year) explained in part by the change in methodology brought about by the AQR recommendations.

(in EUR million)	**31/12/14**	**31/12/13**
Gross amount of non-impaired loans	10'807	10'021
Impaired loans to customers	314	292
Specific provisions	256	231
Asset quality ratio[5]	2.83%	2.83%
Coverage ratio[6]	81.46%	78.94%
Collective impairments on loans	27	20

[5] Impaired loans as a percentage of total loans outstanding.

[6] The coverage ratio measures specific provisions recognised for loans and receivables in relation to total outstanding impaired loans and advances to customers.

4. Market Risk, Assets & Liabilities Management (ALM)

4.1. Definitions

Market risk is the risk of losses in positions arising from adverse movements in market prices. It mainly consists of interest-rate risk, equity price risk and foreign exchange risk:

- The interest-rate risk consists of a general interest rate risk resulting from market developments and a specific interest rate risk. The latter, also called 'credit spread risk', is defined as the specific interest-rate risk attached to an issuer and arises from variations in the spread of a specific signature within a rating class;
- The risk associated with the equity price represents the risk arising from the reduction in value of the equity;
- The foreign exchange risk represents the potential decrease of the value due to currency exchange rate movements.

Assets & Liabilities Management covers all the banking book's structural risks, namely interest-rate risk, foreign exchange risk and liquidity risk.

Liquidity risk measures BIL's ability to meet its current and future liquidity requirements, both expected and unexpected, whether or not the situation deteriorates.

Counterparty risk measures on a daily basis BIL's exposure to an external counterparty.

4.2. Risk Policy

For integrated market and ALM risk management, BIL defines a framework based on the following:

- An exhaustive risk measurement approach, which is an important part of BIL's risk profile monitoring and control process;
- A sound set of limits and procedures governing risk-taking;
- The system of limits must be consistent with the overall risk measurement and management process, and be proportionate to the capital position. These limits are set for the broadest possible scope;
- An efficient risk management structure for identifying, measuring, monitoring, controlling and reporting risks: BIL's development of a general risk management framework is suited to the type of challenges it faces. This approach offers an assurance that market risks have been managed in accordance with BIL's objectives and strategy, within its general risk appetite.

4.3. Organisation and Governance

Financial Risk Management (FRM) oversees market risk under the supervision of the Management Board and specialist risk committees. FRM is a support unit within the Risk Department. On the basis of its global risk management approach, it is responsible for identifying, analysing, monitoring and reporting on risks and results (including the valuation of assets) associated with financial market activities.

The policies, directives and procedures documenting and governing each of the activities are defined within BIL and applied to all of the Bank's entities:

- Head Office FRM teams define risk measurement methods for the whole Group, as well as report and monitor the risks of the activities they are responsible for, at a consolidated level;

- Head Office and local FRM teams follow day-to-day activity, implement policies and directives, monitor risks (calculation of risk indicators, control limits and triggers, frame new activities/new products and so on) and report to their own Management Board, as well as to local supervisory and regulatory bodies;
- The ALM Committee decides on the structural balance sheet positioning regarding rates, foreign exchange and liquidity. It defines and revises market risk limits;
- FRM, in its day-to-day activity, is supported by two operational committees: the MOC (Monthly Operational Committee) and the OR&NPC (Operational Risk and New Products Committee), which are detailed in Operational Risk section hereafter.

4.4. Risk Measurement and exposures

Market Risk

Risk measurement

The Bank has adopted sensitivity and VaR measurement methodologies as key risk indicators. Risk sensitivity measurements reflect the balance-sheet exposure to a parallel movement of 1% on the yield curve. VaR measures the maximal expected potential loss that can be experienced with a 99% confidence interval, within a 10-day holding period.
BIL applies sensitivity and VaR approaches to accurately measure the market risk inherent in its various portfolios and activities.

- General interest rate risk and currency risk are measured through historical VaR;
- Trading portfolio equity risk is measured through historical VaR;
- Non-linear risks are measured through historical VaR;
- Specific interest rate risk (spread risk) is measured through sensitivities.

As a complement to VaR measures and income statement triggers, the Bank applies a broad range of other measures aimed at assessing risks associated with the various business lines and portfolios (nominal limits, maturity limits, market limits, sensitivity to various risk factors, etc.).

In 2014, the hypothetical back-testing calculated on the trading portfolio revealed no downward exception for interest rate and currency risks.

Risk exposure

Treasury and Financial Market

The detailed IR&FX VaR used for Treasury and Financial Market activities (ALM not included) is disclosed in the table below. The average Value at Risk was 2.4 million in 2014, compared with 4.99 million in 2013.

VaR (10 days, 99%) (in EUR million)		2014							
		IR & FX (trading and banking)				EQT trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	4.45	2.97	1.57	0.70	0.00	0.00	0.01	0.00
	Maximum	5.45	3.99	2.46	0.96	0.01	0.02	0.01	0.03
Global	Average	2.40							
	Maximum	5.45							
	End of period	0.45							
	Limit	8.00							

VaR (10 days, 99%) (in EUR million)		2013[7]							
		IR[8] & FX[9] (trading and banking)[10]				EQT[11] trading			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By risk factor	Average	5.81	4.59	5.13	4.39	0.01	0.02	0.01	0.00
	Maximum	8.47	6.26	6.09	5.19	0.02	0.03	0.02	0.02
Global	Average	4.99							
	Maximum	8.48							
	End of period	4.61							
	Limit	8.00							

Up to 2012, spread risk for the capital markets activity was measured using a VaR methodology. This measure has been replaced by a sensitivity calculation at the end of 2012. As of December 31, 2014, the spread sensitivity (+1bp) amounted to EUR -15.525 for a limit set at EUR 60.000.

Asset and Liability Management

The role of ALM in terms of interest rate risk management is to reduce the volatility of the income statement, thereby safeguarding the gross margin generated by the business lines.
The sensitivity of the net present value of ALM positions to a change in interest rates is currently used as the main indicator for setting limits and monitoring risks.
As at December 31, 2014, ALM sensitivity amounted to +61 million (vs. +29 million as at end 2013). This change is mainly due to the cautious rate approach currently adopted by BIL that aims to avoid negative impacts in the event of an interest rate hike.
The limit of interest-rate sensitivity for a 100 bp parallel shift was 81 million as at December 31, 2014 (vs. 95 million as at December 31, 2013).

Investment Portfolio

BIL continued its investments in the new portfolio during 2014.
The interest rate risk of the investment portfolio is transferred and managed by the Treasury department or by the ALM department, depending on various criteria (i.e. maturity, sector).
The investment bond portfolios have a total nominal exposure of 4.91 billion as at December 31, 2014 (against 4.63 billion as at December 31, 2013). The majority of the bonds are classified in the AFS portfolio: 4.75 billion as at December 31, 2014 (against 4.59 billion as at December 31, 2013). The remaining part is classified in HTM portfolio: 158 million as at December 31, 2014.

[7] 01/04/2013 switch to the historical VaR methodology
[8] IR: interest rate
[9] FX: foreign exchange
[10] IR & FX: excluding asset & liability management (ALM)
[11] EQT: equity

As far as the AFS-classified bond portfolio is concerned, the sensitivity of fair value (and the AFS reserve), to a one basis point widening of the spread, was –2.7 million as at end 2014 (compared with –2.5 million per basis point as at December 31, 2013).

Investment portfolio (in EUR million)	Notional amount		Rate bpv		Spread bpv	
	31/12/14	31/12/13	31/12/14	31/12/13	31/12/14	31/12/13
Treasury	2,323	2,378	(0.15)	(0.19)	(0.81)	(0.84)
ALM	2,588	2,248	(0.23)	(0.64)	(1.98)	(1.68)

Liquidity Risk

The liquidity management process is based upon covering funding requirements with available liquidity reserves. Funding requirements are assessed carefully, dynamically and comprehensively by taking the existing and planned on and off-asset & liability transactions into consideration. Reserves are constituted with assets eligible for refinancing with the central banks to which BIL has access (Banque Centrale du Luxembourg, BCL, and Swiss National Bank, SNB).
Regular information channels have been established for management bodies. A daily report is sent to the CEO, the CRO, ALM Committee members, Risk Management, Cash & Liquidity Management and TFM teams. An analysis of the balance sheet development (e.g. customer deposits, etc.) is presented and commented upon during the ALM Committee meetings.

Risk measurement

The internal liquidity management framework includes indicators enabling the assessment of BIL's resilience to liquidity risk. These indicators include liquidity ratios, which compare liquidity reserves with liquidity deficits[12]. All these indicators are assessed according to a variety of scenarios, in the major currencies. These ratios are sent to the CSSF and to the BCL, respectively on a daily and a weekly basis.

Risk exposure

In line with the 2013 year-end situation, BIL presented a significant liquidity surplus all year long during 2014.

Additional funding needed to reach 100% of the base case ratio (in EUR million)	2014	Q1	Q2	Q3	Q4
	Estimated – 1 month				
Average	(4,664)	(4,953)	(4,796)	(4,456)	(4,452)
Maximum	(5,116)	(5,116)	(4,911)	(4,645)	(4,565)

The negative amount of additional funding needed to reach 100% of the base-case ratio shows that the bank presents a surplus of liquidity.

From a commercial balance sheet point of view, the Bank has observed a progressive increase in customer deposits and a moderate growth in the loan portfolio.

[12] Called "Base Case Ratio"

This excess cash has been partially invested through the Bank's liquidity buffer bond portfolio. This portfolio is mainly composed of central bank eligible bonds which are also compliant with the Basel III package requirements, i.e. the LCR and NSFR. Please also note that the Bank's LCR has met the fully phased threshold of 100%.

5. Operational risk

5.1. Definition

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk. It also excludes losses resulting from commercial decisions.

5.2. Risk Policy

BIL's operational risk management policy involves identifying and regularly assessing the existing risks and current checks in order to ensure that the acceptance level defined per activity is respected. If not, adequate governance in place must lead to swift corrective or improvement actions permitting a return to an acceptable situation. This framework is implemented through a prevention policy, particularly with regard to information security, business continuity and, whenever necessary, through the transfer of the financial consequences of certain risks through insurance.
In terms of information security, including business continuity management, BIL's Management Board has validated and implemented an information security policy. This document and its related instructions, standards and practices are intended to secure BIL's information assets.
In terms of operational risk, BIL's management has validated the Operational Risk Global Policy and it has been implemented by the application of guidelines (guidelines for reporting operational incidents and guidelines for conducting a risk and control self-assessment).

5.3. Organisation and governance

BIL's operational risk management framework relies on strong governance, with clearly defined roles and responsibilities.

The following committees are responsible for operational risk at BIL:

- The Operational Risk and New Products Committee (OR&NPC) is in charge of supervising operational risk at BIL. To this end, the committee takes decisions on risks that have been identified and analysed as well as on suitable measures to be taken in order to improve weak processes; and it also monitors any action taken. It approves Risk & Control Self-Assessments (RCSA). It also supervises the launch of new products and examines their operational aspects, taking decisions on any project that could have an operational impact on BIL's activities;
- The Monthly Operational Committee (MOC), part of the TFM business line, supervises BIL's TFM projects and operational risks, takes decisions in terms of tackling day-to-day problems and monitors other risks related to TFM Luxembourg's activities;
- The Security Committee (SC) is mandated by the Management Board to oversee the risks to BIL's information security and to that of its subsidiaries and branches, as well as all risks of the loss of confidentiality, the availability, or the integrity of the Bank's information assets. It is also in charge of overseeing security incidents involving BIL, taking decisions on any project with the potential to have an impact on the security of BIL's information assets and ensuring that the implementation and support of a global Business Continuity Plan (BCP) follows the strategy defined by the BIL Management Committee.

5.4. Risk measurement and management

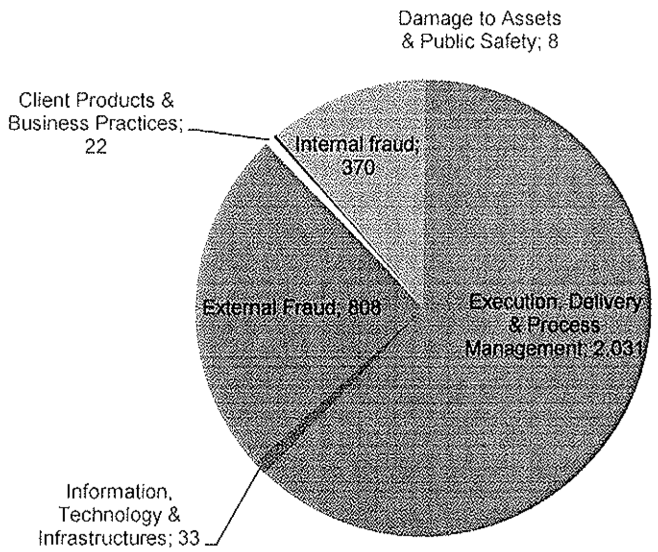
The operational risk framework relies on the following elements.

Operational Risk Event Data Collection

According to the Basel Committee, the systematic recording and monitoring of operational incidents is a fundamental aspect of risk management: "Historical data on banking losses may provide significant information for assessing the Bank's operational risk exposure and establishing a policy to limit/manage risk".
Regardless of the approach used to calculate capital (standard approach for operational risk at BIL), data collection is required. Having a relevant procedure in place ensures that BIL complies with the Basel Committee's requirements (guidelines for reporting operational incidents).

At the same time, recording incidents provides information that may be used to improve the internal control system and determine the operational risk profile. The breakdown of the total amount of losses by nature of incident for continuing activities is evidenced in the chart below:

Risk exposure loss amount in EUR thousand



Execution, Delivery & Process Management incidents represent 62% of the total amount of risk exposure. Losses related to these incidents are usually due to human errors.
In the second place, 25% of exposures to losses occurring in 2014 was due to *External Fraud*. The Bank recorded 75 external frauds and fraud attempts. On the *Internal Fraud* segment, the Bank only faced one single incident during 2014 considered as non-material.
For the category *Information, Technology and Infrastructures*, BIL does not estimate the financial impact except if it has direct financial consequence for the customer. The *Damage to Assets & Public Safety* event type is normally covered by insurance.
In terms of reporting, an exhaustive monthly document is produced for each line manager (i.e. Head Office, subsidiaries and branches). It covers all incidents that have arisen in their business over the previous month, based on reports filed. Recipients analyse the report and verify that all incidents brought to their attention have been included.

The Corporate Operational Risk team also presents a report on operational risk report to OR&NPC at the end of each quarter. On a quarterly basis, three operational risk indicators are reported to the members of the Management Board to follow the Bank's risk appetite: critical IT incidents, external fraud attempts and the ratio between income and the net amount of losses.

Self-assessment of risks and associated controls

A RCSA is performed in order to identify the most significant risk areas for the Bank (to map the operational risks). This assessment provides a good overview of the various activities and existing checks and can lead to the definition of mitigation actions. The results of the assessment are reported to Management during the Operational Risk and New Products Committee meetings.

Definition and follow-up of action plans

As part of operational risk management, corrective action plans linked to major risks and events must be monitored closely.

Two types of action plans are managed through operational risk management:

- Action plans – Incidents: following a significant incident, the management may implement action plans;
- Action plans – RCSA: in the event of unacceptable risk exposure, the management may identify ad hoc action plans.

Calculation of the regulatory capital requirement

BIL group applies the standardised Basel approach to calculate regulatory capital for operational risk. This approach consists principally in applying a percentage (called the "beta factor", ranging from 12% to 18%) to an appropriate activity indicator, calculated for each of the eight business lines defined by the Basel Committee (i.e. corporate finance, commercial banking, retail banking, trading and sales, asset management, agency services, retail brokerage, payment and settlement).

The relevant indicator is defined by the regulator and is based on the operational results of the underlying business lines, using an average over the past three years. The calculation is updated at the end of each year. The operational risk weighted assets amounted to 692 million at year-end 2014 and is quite stable as compared with the end 2013 figures (697 million).

Risk Weighted Assets (in EUR million)	
2014	**2013**
692	697

6. Regulatory capital adequacy - Pillar 1

6.1. Weighted risks

Since January 1st, 2008, the Bank has used the Basel framework – through its different evolutions – to calculate its capital requirements with respect to credit, market and operational risk, and to publish its solvency ratios.

At the end of 2014, the Bank's total RWAs amounted to 5 billion, as compared with the 4.4 billion as at end 2013.

On the Credit Risk side, the overall increase observed in 2014 (+0.6 billion), is explained by the cumulative impacts of the Basel III requirements came into force (e.g. linked to the additional charges related the unregulated financial institutions and large financial institutions, new treatment of Small and Medium Enterprises...) and the bank's risk profile evolution (i.e. increase on the *Corporate, Individuals, SME and Self Employed and Public Sector* portfolios).

While Operational Risk RWAs slightly decreased by 5 million in 2014, the Market Risk RWAs increased by +17 million, principally explained by the growth of the trading portfolio.

(in EUR million)	**31/12/14**	**31/12/13**
Weighted credit risks	4,140	3,538
Weighted market risks	136	119
Weighted operational risks	692	697
Weighted CVA risks	38	0
TOTAL WEIGHTED RISKS	5,006	4,354

For Credit Risk, BIL group has decided to use the Advanced-Internal Rating Based (A-IRB) approach on its main counterparties (i.e. Sovereigns, Banks, Corporate, SMEs and Retail).
When it comes to Market Risk, the Bank has adopted the Standardised method for the calculation of its weighted risks. This choice is based on the Bank's very moderate trading activity, whose sole purpose is to assist BIL customers by providing the best service relating to the purchase or sale of bonds, foreign currencies, equities and structured products.

6.2. Capital Adequacy ratios

(in EUR million)	**31/12/14**	**31/12/13**
Common Equity Tier 1 Capital (CET 1)	765	650
Additional Tier One Capital	150	0
Total Own funds	979	904
Risk Weighted Assets	5,006	4,354
Common Equity Tier 1 Capital Ratio (CET 1%)	15.28%	14.93%
TOTAL CAPITAL RATIO	19.56%	20.77%

The sum of the different RWA categories constitutes the denominator for the calculation of the solvency ratios.
BIL group's Tier 1 ratio has significantly increased, thanks to the strengthening of the bank's own funds with, particularly, the Contingent Convertible (CoCo) issued for 150 million qualified as Additional Tier 1 according to the CRD IV package.

7. Internal capital adequacy - Pillar 2

CSSF circular 07/301 defines the ICAAP as *"a system of sound, effective and complete strategies and processes allowing credit institutions to assess and maintain, on an on-going basis, the amount, types and distribution of internal capital that they consider adequate to cover the nature and level of risks to which they are or might be exposed".*

The ICAAP is an internal instrument, which shall allow BIL group to hold the internal capital it deems appropriate in order to cover all the risks to which it is or could be exposed as a result of its business model and strategic plan, this being framed by its Risk Appetite and its risk bearing capacity.
Under the ICAAP, BIL group is required to identify the material risks to which it is exposed, to quantify them and to ensure it maintains adequate capital to back them. This capital must be of sufficient quality to absorb losses that may arise for a given time period and level of confidence.
The ICAAP shall fully reflect all of the risks to which BIL group is or could be exposed, as well as the economic and regulatory environment within which the bank operates or could come to operate. The ICAAP shall therefore not only take into account the current situation but shall also be forward-looking in order to ensure the internal capital adequacy on an on-going basis.

The main building blocks of BIL group's ICAAP

In order to maintain internal capital adequacy on an on-going basis, the ICAAP is anchored in BIL group's decision-making processes, its business and risk strategies and its risk management and control processes.

This objective is achieved through the development of a sound and comprehensive framework based on the following key components:

- In order to determine the adequacy of its internal capital, BIL group first translates its business and strategy plans into Risk Appetite statements and develops and monitors the corresponding framework. The starting point for the Risk Appetite framework is the strategic business plan. The strategic business plan frames the Bank's target business profile for the coming years and it is currently defined as follows: BIL group is a universal bank with a strong anchoring in the Luxembourg market and operating on selected international niches. In this context, BIL group develops service excellence, as a key differentiating factor in order to generate additional revenue opportunities. This business model and strategy is then translated into five Risk Appetite pillars which set the Bank's objectives:
    - Capital: maintain sufficient capital, quantity and quality, to support the risk profile in both normal and crisis periods and to ensure an A- credit rating is maintained;
    - Earnings stability: generate a sustainable return on capital above the Bank's cost of capital and in line with achieving the Bank's dividend targets;
    - Liquidity: maintain a strong liquidity position by retaining a high level of customer deposits and a high quality liquidity reserve;
    - Reputation: maintain a strong reputation in the Luxembourg and international markets by focusing on a strong product offering and achieving service excellence;
    - Operational effectiveness: focus on operational efficiency by leveraging cross-sell opportunities, achieving service level optimisation of support functions and operations and having a robust control environment in place.

- BIL group has to identify the risks to which it is exposed to (i.e. Risk Identification and Cartography) according to the Risk Appetite framework. Different steps are then taken within the Bank on an on-going basis:
    - Compilation of a risk glossary;
    - Identification of the risks;
    - Assessment of the risk materiality;
    - Production of a risk cartography (by entities & activity lines).

- BIL group assesses its risks and attributes capital to cover the economic effects of risk-taking activities thanks to the Economic Capital calculations (ECAP). ECAP is defined as the potential deviation between the group's economic value and its expected value, within a given confidence interval, depending on the BIL group's target rating, and a horizon of one year. The process for quantifying economic capital is organised into two stages:
    - Stand-alone risk measurements (on the basis of statistical models developed internally and adapted to the Bank's risk profile);
    - Aggregation based on an inter-risk correlations matrix.
- BIL group assesses its capacity to maintain sufficient capital, in terms of quantity and quality, to support its risk profile through both normal and crisis periods. This is carried out using two interconnected processes, Capital Adequacy and Capital Planning:
    - Capital Adequacy mainly links the needs of ECAP with Available Financial Resources (AFR), representing the loss absorbing financial capacity and availability over a one-year horizon. These AFR are constituted to cover the incurred risks and absorb losses;
    - Moreover, within the Capital Planning process, BIL group assesses its risk absorbing capacity in both normal (in line with the strategic plan expectations) and stressed periods and for a time horizon of three years;
    - Concerning the Business Integration part, the effectiveness of the ICAAP depends on:
        - The use in the decision-making and management process at all levels in the Bank (e.g. Limit setting);
        - The role of the ICAAP in risk/capital management, including its used for business purposes. The best example of ICAAP business integration is its use in all kind of decision-making processes, where capital consumption indicators help drive new initiatives.

Note 41 – Audit fees

(in EUR thousand)	31/12/2014	31/12/2013
Standard audit services	3,929	3,867
Audit related services	596	172
Tax services	58	5
Other services	232	552
Total	**4,815**	**4,596**

Note 42 – List of significant subsidiaries and associates

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
Precision Capital S.A.	Luxembourg	100.00%	Holding
FULLY CONSOLIDATED SUBSIDIARIES (global method)			
KBL European Private Bankers S.A.	Luxembourg	99.91%	Bank
KBL European Private Bankers, Sucursal en España	*Spain*	*Branch*	*Bank*
Brown, Shipley & Co. Limited	United Kingdom	99.91%	Bank
Cawood Smithie & Co Limited	United Kingdom	99.91%	Other - financial
Fairmount Pension Trustee Limited	United Kingdom	99.91%	Other - financial
Fairmount Trustee Services Ltd	United Kingdom	99.91%	Other - financial
Slark Trustee Company Ltd	United Kingdom	99.91%	Other - financial
White Rose Nominees Ltd	United Kingdom	99.91%	Other - financial
KBL Immo S.A.	Luxembourg	99.91%	Real estate
Centre Europe S.A.	Luxembourg	99.91%	Real estate
Rocher Ltd	Isle of Man	99.91%	Real estate
S.C.I. KBL Immo III	Monaco	99.91%	Real estate
Plateau Real Estate LTD	Isle of Man	99.91%	Real estate
SCI KBL Immo II	Monaco	99.91%	Real estate
KBL Monaco Private Bankers	Monaco	99.91%	Bank
S.C.I. KBL Immo I	Monaco	99.91%	Real estate
KBL Monaco Conseil et Courtage en Assurance	Monaco	99.91%	Insurance
KBL Beteiligungs A.G.	Germany	99.91%	Holding
Modernisierungsgesellschaft Lübecker Str. 28/29 Gbr	Germany	78.99%	Real estate
Merck Finck & Co.	Germany	99.91%	Bank
Merck Finck Pension Universal Funds	Germany	99.91%	Management (Funds, Pensions, Portfolios)
Merck Finck Treuhand A.G.	Germany	99.91%	Other - financial
KBL Richelieu Banque Privée S.A.	France	99.91%	Bank
KBL Richelieu Gestion	France	99.91%	Management (Funds, Pensions, Portfolios)
S.E.V.	France	99.91%	Other - Commercial
KBLR COURTAGE (Ex KBLR INVEST 1)	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 2	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 3	France	99.91%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 4	France	99.91%	Management (Funds, Pensions, Portfolios)
KBL Informatique G.I.E.	Luxembourg	99.91%	IT
KBL (Switzerland) Ltd	Switzerland	99.91%	Bank
Privagest	Switzerland	99.91%	Management (Funds, Pensions, Portfolios)
Kredietrust Luxembourg S.A.	Luxembourg	99.91%	Management (Funds, Pensions, Portfolios)
Puilaetco Dewaay Private Bankers S.A.	Belgium	99.91%	Bank
Banque Puilaetco Dewaay Luxembourg S.A.	Luxembourg	99.91%	Bank
Theodoor Gilissen Bankiers N.V.	The Netherlands	99.91%	Bank
TG Fund Management B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Trust B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Global Custody N.V.	The Netherlands	99.91%	Custodian
Wereldeffect B.V.	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Vitis Life S.A.	Luxembourg	99.91%	Insurance
Data Office	Belgium	99.91%	Other - financial
Banque Internationale à Luxembourg S.A.	Luxembourg	89.93%	Bank
Selskabet af 18 December 2013 A/S	Denmark	89.93%	Bank
Banque Internationale à Luxembourg (Suisse) S.A.	Switzerland	89.93%	Bank
BIL Asia Singapore Ltd	Singapore	89.93%	Bank
BIL Auto Lease Luxembourg S.A.	Luxembourg	89.93%	Leasing
Société du 25 juillet 2013 SA	France	89.93%	Other - financial
Experta Corporate and Trust Services S.A.	Luxembourg	89.93%	Other - financial
Experta Immobilien A.G.	Switzerland	89.93%	Real estate
I.B. Finance S.A.	Luxembourg	89.93%	Bank
Société Luxembourgeoise de Leasing - BIL Lease S.A.	Luxembourg	89.93%	Leasing
BIL Manage Invest S.A.	Luxembourg	89.93%	Management (Funds, Pensions, Portfolios)
Belair House S.A.	Luxembourg	89.93%	Management (Funds, Pensions, Portfolios)
BIL Reinsurance S.A.	Luxembourg	89.93%	Insurance
ASSOCIATES			
KBL European Private Bankers S.A.			
EFA Partners S.A. (1)	Luxembourg	52.65%	Holding
European Fund Administration S.A. (1)	Luxembourg	48.53%	Fund administration
Europay Luxembourg S.C.	Luxembourg	1.00%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	3.98%	Stock Exchange company
Banque Internationale à Luxembourg S.A.			
Europay Luxembourg S.C.	Luxembourg	31.66%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	19.25%	Stock Exchange company

COMPANY	COUNTRY	CAPITAL HELD
NON-CONSOLIDATED COMPANIES		
KBL European Private Bankers S.A.		
Forest Value Investment Management S.A.	Luxembourg	25.58%
Horacio sarl	Luxembourg	99.91%
KBL Beteiligungs A.G.		
Steubag G. Betriebsw. & Bankendienst. GmbH	Germany	99.91%
Banque Internationale à Luxembourg S.A.		
Audit-Trust S.A.	Luxembourg	89.93%
BIL Trust Ltd	Channel Islands	89.93%
Compagnie Financière BIL S.A. & Cie S.e.c.s.	Luxembourg	89.93%
Koffour S.A.	Luxembourg	89.93%
Lannage S.A.	Luxembourg	89.93%
Private II Wealth Management S.à r.l.	Luxembourg	89.93%
Valon S.A.	Luxembourg	89.93%

Note:

(1) Despite the ownership percentage, Precision Capital does not exercise control or joint control over EFA Partners S.A. or European Fund Administration S.A. These two companies are thus considered as associates over which Precision Capital exercises a significant influence and are equity reported.

Note 43 – Main changes in the scope of consolidation

2014:

During the year 2014, Precision Capital acquired some shares of BIL from minority shareholders and has sold some shares of BIL to the state of Luxembourg. The percentage of holding has not changed.

COMPANIES FULLY CONSOLIDATED FOR THE FIRST TIME

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
Banque Internationale à Luxembourg S.A.			
Belair House S.A. (incorporated on January 10, 2014)	Luxembourg	89.93%	Other - financial
BIL Reinsurance S.A. (incorporated on May 12, 2014)	Luxembourg	89.93%	Insurance

COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD FOR THE FIRST TIME

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
KBL European Private Bankers S.A.			
Europay Luxembourg S.C.	Luxembourg	1.00%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	3.98%	Stock Exchange company
Banque Internationale à Luxembourg S.A.			
Europay Luxembourg S.C.	Luxembourg	31.66%	Computerized means of payment
Société de la Bourse de Luxembourg S.A.	Luxembourg	19.25%	Stock Exchange company

COMPANIES NO LONGER FULLY CONSOLIDATED

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
KBL European Private Bankers S.A.			
Brown, Shipley & Co. Limited			
The Brown Shipley Pension Portfolio Ltd (Liquidated)	United Kingdom	99.91%	Other - financial
Theodoor Gilissen Bankiers N.V.			
TG Ventures B.V (Liquidated)	The Netherlands	99.91%	Corporate Finance
Lange Voorbehout B.V. (Liquidated)	The Netherlands	99.91%	Real estate
Stroeve Asset Management B.V. (Liquidated)	The Netherlands	99.91%	Management (Funds, Pensions, Portfolios)
Banque Internationale à Luxembourg S.A.			
BIL Invest N.V. (Liquidated)	Nederlandse Antille	89.93%	Other - financial
BIL Part Investments N.V. (Liquidated)	Nederlandse Antille	89.93%	Other - financial
BIL RE S.A. (Sold)	Luxembourg	89.93%	Insurance

2013:

No significant change occurred in the scope of consolidation in 2013.

During the year 2013, Precision Capital acquired some shares of BIL from minority shareholders, increasing its percentage of holding from 89.92% to 89.93%.

Note 44 – Non controlling interests

Non controlling interests (hereunder 'NCI') recognized in the Group Statement of Financial Position relate to the following two subsidiaries:

- NCI in BIL (10.07%)
- NCI in KBL (0.09%)

These NCI result from the two business combinations described in Note 1.
NCI in BIL are almost exclusively held by the Grand Duchy of Luxembourg (9.99% out of the total NCI of 10.07%). Other NCI, both in BIL and in KBL, are held by private investors.

Impacts of NCI on the Group financial position can be further disaggregated as follows:

(in EUR thousand) 31/12/2014	TOTAL	Attributable to PRECISION CAPITAL	Attributable to the non controlling interests on BIL	Attributable to the non controlling interests on KBL
Consolidated income statement – Profit after tax	145,530	133,761	11,306	463
Total comprehensive income	184,150	166,700	17,003	447
Consolidated balance sheet – Total Equity	2,511,083	2,375,582	134,676	824

In 2014, dividends paid to NCI amounted to EUR 10,026 thousand for BIL and to EUR 29 thousand for KBL.

For further financial information on BIL about assets, liabilities, profit or loss and cash flows, please refer to the Annual report on BIL's website (www.bil.com).

For further financial information on KBL about assets, liabilities, profit or loss and cash flows, please refer to the Annual report on KBL's website (www.kbl.lu).

Note 45 – Events after the balance sheet date

There was, after the closing date, no significant event requiring an update of the provided information or adjustments in the consolidated accounts as at 31 December 2014.

Since the closure of the financial year, the banks announced three major events:

On January 15, 2015 BIL, through its subsidiary IB Finance, sold 2,385,000 shares in investment firm Luxempart representing 9.96% of its capital, for a total consideration of EUR 73.9 million, generating a capital gain of EUR 66.6 million.

On January 19, 2015 BIL and KBL European Private Bankers (KBL epb) announced the signing of two agreements regarding their private banking operations in Switzerland and Belgium.

- Under the terms of the first agreement, BIL (Suisse) will acquire KBL (Switzerland) Ltd, a wholly owned affiliate of KBL epb, as part of the BIL group's strategic focus on major international private banking centres. The transaction will strengthen BIL's existing Swiss operations and create a sizeable private bank operating from Geneva, Lugano and Zurich.
- Under the terms of the second agreement, Puilaetco Dewaay, the Belgian affiliate of KBL epb, will acquire the business of BIL Belgium, BIL's recently launched private banking operation in that country.

The transactions, which are subject to regulatory approvals, are expected to close by the end of the first half of 2015.

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MANAGEMENT REPORT – CONSOLIDATED ACCOUNTS

General comments on the result

The net consolidated profit, group share, as at 31 December 2014 amounts to EUR 133.8 million compared to EUR 139.4 million as at December 2013.

The balance sheet amounts to EUR 33.1 billion as at 31 December 2014 (EUR 32.5 billion as at 31 December 2013).

As at 31 December 2014, Precision Capital's Tier One capital after deductions and excluding result of the period (calculated in accordance with EU Parliament & Council, Capital Requirement Regulation (CRR 2013/575), defining capital ratios under Basel III), amounts to EUR 1,440 million and the consolidated solvency ratio on Tier One equity stands to 15.69%.

Risk analysis

Risk management is assumed at the level of each of the two sub-group (KBL epb and BIL) held by Precision Capital. Quantitative and qualitative information relating to BIL and KBL epb local risk management are reported in the respective consolidated accounts of these subsidiaries.

Furthermore, in order to cover most of the aspects of LMI Circular 96/125, KBL epb and BIL communicate on quaterly basis information useful for its supervision.

Luxembourg, 3 June 2015

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